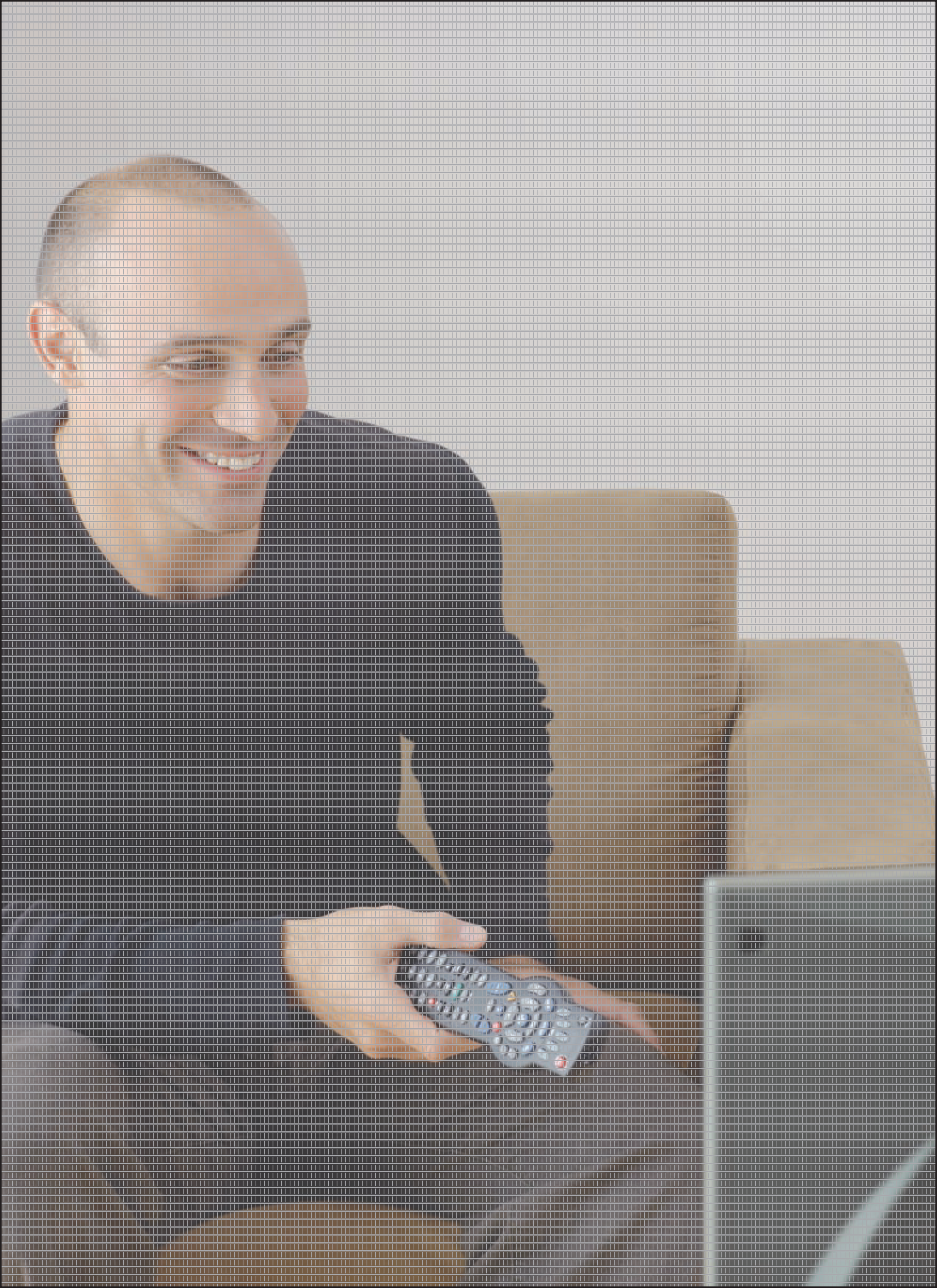


A photograph of a young woman with blonde hair, smiling and talking on a mobile phone. The image is overlaid with a semi-transparent grid pattern. A blue rectangular box is positioned in the lower-left corner, containing text and a logo.

Cogeco Cable Inc. 2006 Annual Report

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 **COGECO**
COGECO CABLE INC.



FORWARD-LOOKING STATEMENTS

Certain statements in this annual report may constitute forward-looking information within the meaning of securities laws. Forward-looking information may relate to our future outlook and anticipated events, our business, our operations, our financial performance, our financial condition or our results and, in some cases, can be identified by terminology such as “may”, “will”, “should”, “expect”, “plan”, “anticipate”, “believe”, “intend”, “estimate”, “predict”, “potential”, “continue”, “foresee”, “ensure” or other similar expressions concerning matters that are not historical facts. Particularly, statements regarding our future operating results and economic performance, our objectives and strategies are forward-looking statements. These statements are based on certain factors and assumptions including expected growth, results of operations, performance and business prospects and opportunities, which we believe are reasonable as of the current date. While we consider these assumptions to be reasonable based on information currently available to us, they may prove to be incorrect. Forward looking-information is also subject to certain factors, including those described in the “Uncertainties and main risk factors” section starting on page 15 of this MD&A that could cause actual results to differ materially from what we currently expect. These factors include technological changes, changes in market and competition, governmental or regulatory developments, general economic conditions, the development of new products and services, the enhancement of existing products and services, the introduction of competing products having technological or other advantages, many of which are beyond our control. Therefore, future events and results may vary significantly from what we currently foresee. You should not place undue importance on forward-looking information and should not rely upon this information as of any other date. While we may elect to, we are under no obligation (and expressly disclaim any such obligation) and do not undertake to update or alter this information before the Corporation’s next fiscal quarter.

This analysis should be read in conjunction with the Corporation’s financial statements, and the notes thereto, prepared in accordance with Canadian GAAP and the MD&A included in the Corporation’s 2006 Annual Report. Throughout this discussion, all amounts are in Canadian dollars unless otherwise indicated.

Glossary

ARPU	AVERAGE MONTHLY SERVICE REVENUE PER BASIC SERVICE CUSTOMER
DIGITAL SERVICES	DIGITAL TELEVISION SERVICES
DVR	DIGITAL VIDEO RECORDER (SAME AS PERSONAL VIDEO RECORDER OR PVR)
HD	HIGH DEFINITION
HSI	HIGH SPEED INTERNET SERVICES
HSI LITE	HIGH SPEED INTERNET SERVICE WITH DOWNLOAD SPEED OF UP TO 640 KBPS
HSI PRO	HIGH SPEED INTERNET SERVICE WITH DOWNLOAD SPEED OF UP TO 16 MBPS
HSI REGULAR	HIGH SPEED INTERNET SERVICE WITH DOWNLOAD SPEED OF UP TO 10 MBPS
IP	INTERNET PROTOCOL
MBPS	MEGABITS PER SECOND
RGU (REVENUE-GENERATING UNIT)	INCLUDES BASIC SERVICE, HSI SERVICE, DIGITAL TELEVISION SERVICE AND TELEPHONY SERVICE CUSTOMERS
SVOD	SUBSCRIPTION VIDEO ON DEMAND SERVICES
VOD	VIDEO ON DEMAND SERVICES

FINANCIAL HIGHLIGHTS

(in thousands of dollars, except rates of return and ratios, customers, per share data and percentages)	2006 \$	2005 \$	CHANGE %
OPERATIONS			
REVENUE	620,001	554,404	11.8
OPERATING INCOME BEFORE AMORTIZATION ⁽¹⁾	252,978	227,521	11.2
NET INCOME	65,556	28,721	128.3
CASH FLOW			
CASH FLOW FROM OPERATIONS ⁽¹⁾	194,739	170,938	13.9
FREE CASH FLOW ⁽¹⁾	30,293	45,267	(33.1)
FINANCIAL CONDITION			
TOTAL ASSETS	2,602,603	1,755,796	48.2
INDEBTEDNESS ⁽²⁾	1,316,977	692,481	90.2
SHAREHOLDER'S EQUITY	745,191	689,484	8.1
RATES OF RETURN AND RATIOS			
OPERATING MARGIN ⁽¹⁾	40.8%	41.0%	
RETURN ON EQUITY ⁽¹⁾	9.1%	4.2%	
INDEBTEDNESS ON OPERATING INCOME BEFORE AMORTIZATION	5.2 ⁽³⁾	3.0	
INTEREST COVERAGE	4.4 ⁽³⁾	4.1	
CUSTOMERS			
RGU	2,184,977	1,347,733	62.1
BASIC SERVICE CUSTOMERS	1,102,871	821,433	34.3
PENETRATION AS A PERCENTAGE OF HOMES PASSED	47.9%	56.7%	
HSI SERVICE CUSTOMERS	479,358	277,648	72.6
DIGITAL TELEVISION SERVICE CUSTOMERS	327,364	247,204	32.4
TELEPHONY SERVICE CUSTOMERS	275,384	1,448	—
PER SHARE DATA (BASIC)			
NET INCOME	1.64	0.72	—
CASH FLOW FROM OPERATIONS	4.87	4.28	13.8
WEIGHTED AVERAGE NUMBER OF OUTSTANDING SHARES (IN THOUSANDS)	39,990	39,965	0.1

(1) THE INDICATED TERMS ARE NOT DEFINED UNDER CANADIAN GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP) AND MAY NOT BE COMPARABLE TO OTHER MEASURES PRESENTED BY OTHER COMPANIES. REFER TO PAGES 10, 11 AND 32 OF THE MANAGEMENT'S DISCUSSION AND ANALYSIS FOR A DETAILED DESCRIPTION OF NON-GAAP MEASURES.

(2) INDEBTEDNESS IS DEFINED AS BANK INDEBTEDNESS PLUS LONG-TERM DEBT.

(3) FOR FISCAL YEAR 2006, THE RATIO INCLUDES THE FINANCIAL RESULTS FOR A ONE-MONTH OPERATION PERIOD OF CABOVISÃO - TELEVISÃO POR CABO, S.A.

This fiscal year will be known as the year when Cogeco Cable resumed its external growth strategy. The August 2006 acquisition of Cabovisão – Televisão por Cabo, S.A. (Cabovisão), the second largest cable telecommunications company in Portugal, has opened the door to interesting growth possibilities for the Corporation. This desire to resume external growth, announced by Cogeco Cable at the start of the year, was followed up by meticulous studies with respect to the size and the market and ended with the acquisition of a company that met our stringent criteria, one of which was a reasonable acquisition price. Following the acquisition, the total debt ratio on Cogeco Cable's consolidated pro-forma EBITDA was 4.8, which is below the forecasts announced prior to the signing of the purchase agreement. The integration of this asset has progressed in line with our expectations and should continue to do so according to plan.

In our Canadian territories, the enthusiastic response of our customers for our Digital Telephony service exceeded our expectations and had a ripple effect on the number of subscribers to our other services. Since the initial implementation of this service in June 2005, more than 52,000 customers have subscribed, and 56.4% of them subscribe to all of our other services. As of October 16, 2006, 70% of our homes passed in our territories have access to our competitive phone service.

Furthermore, the convenience and superiority of cable has gradually eroded the demand for dial-up Internet access in favour of cable broadband connections in all our markets. This trend is particularly evident in the Québec market, which tends to echo the demand in Canada as a whole. Everyday, the need to access information and multimedia files grows, generating a demand for increased speed and download capacity. Cogeco Cable retains its lead in its markets by offering customers its Standard service with a download speed of up to 10 Mbps and its Pro service with a maximum download speed of 16 Mbps, while the combined download and upload bit cap for each service was recently substantially increased. Subscriptions to our HSI services have risen and now total 343,080 customers, a 23.6% increase over last year.

Our video services also enjoyed impressive growth. This is attributable to greater demand for the triple-play bundled offer, to the intense popularity of Digital and HD Television, and to our continuously improving offerings in Digital Television, HD, and VOD services. At year-end, Digital Television customers had access to more than 250 channels in Ontario and 180 channels in Québec, while VOD offered 1,400 hours of programming, including most of the major productions and successful releases of the top American studios. As for HD customers, they now have access to up to 24 channels in Ontario and 3 in Québec.

Customer satisfaction is the driving force behind all our decisions and actions. In line with our strategy, our growth will stem from an ongoing, continuous improvement of our offering in all of our regions and in all of our services.

Similarly, our new Portuguese subsidiary will also share this overriding objective of "customer satisfaction". Particular attention will therefore be paid to sales and service. As for the offering, the first items to be evaluated will be Digital Television and greater penetration of HSI services in order to satisfy the growing demand for these types of services in Portugal. Its highly advanced network offers a lot of flexibility in this respect. In Canada, growth will be fuelled by expanded television and video choices, access to our Digital Telephony service in virtually all of our territories, and still the fastest and most secure HSI services in its category in our territories.



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1 LOUIS AUDET
PRESIDENT AND CHIEF EXECUTIVE OFFICER
2 JAN PEETERS
BOARD CHAIR

These efforts should generate growth in the number of customers and subscribed services, thereby strengthening our position in our markets. Furthermore, stringent cost management and improved internal processes across all of our subsidiaries will improve our efficiency. These measures will help to raise revenues and provide a better return on investment to shareholders.

All of Cogeco Cable's successes could not be celebrated without recognizing the remarkable contributions made by our employees. With respect to our Canadian employees, we would like to call special attention to the commitment they made during the launch of our Digital Telephony service and their ability to absorb the increased demand that this service generated for all other services, as well as to the contributions they made towards improving other aspects of our service offering. In Portugal, our employees worked tirelessly to ensure the growth of Cabovisão. Their warm welcome greatly facilitated the ongoing integration process. We are very proud to count them among the expanding Cogeco family. Our future depends on the commitment of our employees and management—that is—their commitment towards placing our customers at the centre of everything we do. Everyone has made that commitment, and for that we are very grateful.

Our officers certainly deserve our gratitude as well. Their contributions continue to enable us to improve our governance in accordance with our status as a family-controlled corporation. In December, one of our directors is retiring from the Board of Directors. His experience and advice have been most valuable for the development of our Corporation over the years. Mr. Henri Audet, Chairman Emeritus and controlling shareholder, retires after having created the company, close to 50 years ago. His vision, sense of entrepreneurship and social responsibility have established the standard, which will continue to inspire the Corporation for decades to come.

We wish to extend our sincere gratitude to Mr. Audet for his continued support and wish him all the success that he deserves in his future endeavours.

For the future, Cogeco Cable is committed to providing its customers with the best service and best products. This is our purpose and the source of our pride.


LOUIS AUDET
PRESIDENT AND CHIEF EXECUTIVE OFFICER


JAN PEETERS
BOARD CHAIR

OVERVIEW OF THE BUSINESS

Cogeco Cable is the second largest cable system operator in Ontario, Québec and Portugal in terms of the number of basic cable service customers served. The Corporation's operations are supported by cutting-edge hybrid fibre and co-axial cable broadband networks. The Corporation provides its residential and business customers with audio services, analog and Digital Television as well as HSI and Telephony services. In Canada, the Corporation provides basic cable service to 833,177 customers, Digital Television services to 327,364 customers, HSI services to 343,080 customers, and Digital Telephony service to 52,315 customers. In Portugal, through its subsidiary Cabovisão, Cogeco Cable provides basic cable service to 269,694 customers, HSI services to 136,278 customers, and Telephony service to 223,069 customers.

CORPORATE OBJECTIVES AND STRATEGIES

Cogeco Cable's business objectives all center on improving profitability and creating value for shareholders. To achieve these objectives, the strategies employed consist of sustained business growth, continuous improvement of networks and equipment, and tight control over the Corporation's costs and business processes and the integration of Cabovisão.

SUSTAINED CORPORATE GROWTH

Cogeco Cable's growth strategy is driven by a focus on customer satisfaction. By constantly improving its product and service offering, the Corporation attracts new customers and, by extension ensures sustained growth. To meet the growing demands of consumers, Cogeco Cable makes its decisions based on research studies conducted with customers, on analyses of the trends occurring in its markets, and by taking into account industry developments in the formulation of its strategies. Furthermore, the continuous improvement of the Corporation's product and service offering as well as its superior level of customer service not only attracts new customers, it entices existing customers to subscribe to the Corporation's other services.

CONTINUOUS IMPROVEMENT OF THE SERVICE OFFERING AND A LARGER CUSTOMER BASE

The Corporation's product and service offerings are adapted regularly so that it constantly meets—or exceeds—the demands of its clients in its various markets. The Corporation offers a full array of broadband telecommunications products and services such as analog television, Digital Television, HD, VOD, SVOD, HSI, and Telephony.

In Canada, the Corporation expects its new Digital Telephony service to continue to play a major role in revenue growth. Cogeco Cable will continue to deploy its Digital Telephony service in most of its territories. In addition, the Corporation will continue to improve its VOD offer, by forging new partnerships with major studios and other program suppliers; its HD Television, by gradually proposing a more diverse offering according to availability; and its HSI services, by maintaining the offer to meet the growing expectations of its customers.

In Portugal, marketing efforts more appropriately targeted to the Portuguese market will be launched in support of an improved product and service offering. During 2007, the Corporation plans to begin the deployment of its Digital Television service to many of its Portuguese customers. This service will open the door to a unique television experience by allowing for interactivity, and eventually, VOD.

These strategies should generate higher operating revenue by way of customer growth.

CONTINUOUS IMPROVEMENT OF NETWORKS AND EQUIPMENT

To make sure that it can support the development of new quality services, Cogeco Cable keeps a close eye on technological advancements made in its industry and continually invests in network improvements and purchases of appropriate equipment.

Cogeco Cable constantly strives to benefit from advancements in digital compression and multiplexing techniques in order to deliver the best possible signal quality to its customers. As for HSI services, the platform is constantly adapted to support the growth in subscriber numbers.

The Canadian networks can support the deployment of new services such as Digital Telephony in most sectors, reaching 77% by December 31, 2006.

TIGHT CONTROL OVER COSTS, BUSINESS PROCESSES

To maximize the Corporation's profitability and shareholders value, Cogeco Cable maintains a strict control over its spending. This strategy enables the Corporation to become more efficient and reduce its costs while making its offer more attractive to customers. In addition, tight control over business processes is integral to Cogeco Cable's way of doing business and ensures that shareholders receive timely information on the Corporation's development.

CABOVISÃO INTEGRATION

The above strategies will also be applied to the new Portuguese subsidiary and are part of the plan overseen by the Integration Committee of Cogeco Cable comprised of its President and CEO; Vice President, Finance and Chief Financial Officer; Vice-President Marketing; Vice President, Corporate Affairs and Vice President, Portugal. Once the integration process is complete, Cogeco Cable will ensure that its Portuguese subsidiary's practices and business processes have been reviewed and applied consistently between the different operating units of the Corporation.

ANTICIPATED RESULTS OF THESE STRATEGIES

The successful implementation of the above-described strategies should result in heightened profitability and reduced Indebtedness that will be measured based on the following criteria (these criteria are described in greater detail on page 35 in "Fiscal 2007 Financial Guidelines"):

- Cogeco Cable expects to increase its operating income before amortization by 32.4% to \$335 million as compared to \$253 million in 2006 as a result of the full-year impact of the operating results of the Portuguese acquisition, improved penetration of the various services offered as well as tariff increases.
- The Corporation expects to generate free cash flow of \$20-25 million compared to \$30 million in 2006. This decrease will stem essentially from capital expenditures increasing at a faster pace than cash flow from operations. The lion's share of the generated free cash flow will be used to reduce Indebtedness.
- In Canada, RGUs are expected to grow between 138,000 to 156,000, an increase of 9% to 10% compared to August 31, 2006 as a result of the increase generated by the bundled service offerings. In Portugal, RGUs should grow by 75,000, an increase of 12% compared to 2006 RGUs.

CABLE NETWORKS

CANADA

Digital and VOD services are available to 98% and 90% of homes passed, respectively, and 93% of homes passed are served by a two-way cable plant. Cogeco Cable's optical fibre network extends over 8,300 kilometres and includes 79,389 kilometres of optical fibre. Cogeco Cable has deployed optical fibre to nodes serving clusters of typically 1,300 homes passed, with many fibres per node in most cases, which allows the Corporation to further extend the fibre plant to smaller clusters of 500 homes passed rapidly with relative ease if and when necessary. Node splitting leads to further improvement in the quality and reliability of services and allows for increasing traffic of two-way services such as HSI, VOD and Digital Telephony.

Cogeco Cable currently acquires DOCSIS 2.0 equipment and continues to use the DOCSIS 1.1 standard (Data Over Cable Service Interface Specifications) for its IP platform. DOCSIS allows the prioritization of the signal packets that must be transmitted in real time, such as those of Digital Telephony service, so as to ensure a continuous transmission flow. When appropriate, the DOCSIS 2.0 transmission mode can be activated to increase the speed and capacity of the return path, thus making it possible to provide very high speed symmetrical services, which are particularly well suited for commercial customer applications. It is also more robust, allowing for the use of portions of the return path spectrum that are normally not useable in a DOCSIS 1.1 mode. In addition, the cable industry, in collaboration with CableLabs, is in the process of developing a new standard, DOCSIS 3.0, compatible with the earlier versions, which will make it possible to increase IP transmission speeds even more, up to 200 Mbps.

Cogeco Cable has implemented an infrastructure with 550 MHz or 750 MHz capacity, depending on the cable system. An infrastructure with 550 MHz capacity allows for the transmission of up to 80 analog channels, while an infrastructure of 750 MHz allows for the transmission of up to 110 analog channels. As a reference, each analog channel (representing 6 MHz of bandwidth), with the current compression, multiplexing and modulation technologies used by the Corporation, allows for the transmission of up to 13 standard definition digital television signals, or of up to 3 HD digital television signals.

PORTUGAL

The Corporation provides its cable services in Portugal through state-of-the-art 750 MHz broadband distribution networks. Cabovisão, Cogeco Cable's subsidiary in Portugal, fully owns its distribution networks, headends and drops. Digital and VOD services are not currently offered but are planned for launch progressively over the coming years. As in Canada HSI service using fully certified DOCSIS technology is offered to 100% of homes passed and served by a two-way cable plant. Telephony service is also offered to 100% of homes passed, initially through the use of proprietary network interface units (NIU), and more recently with standard based embedded multimedia terminal adapters (e-MTA). Cabovisão currently uses class-5 circuit switches and will be deploying class-5 advanced softswitches in the near term. Cabovisão's intercity fibre optic network extends to over 1,811 kilometres and includes 173,856 kilometres of optical fibre. Cabovisão has deployed optical fibre to nodes serving clusters of typically 1,215 homes passed, with many fibres per node in most cases, which allows the Corporation to further extend the fibre plant to smaller clusters of 500 homes rapidly with relative ease if and when necessary. Node splitting leads to further improvement in the quality and reliability of the network and of services and allows for increasing traffic of two-way services such as HSI and Telephony.

Cabovisão has implemented an infrastructure with 750 MHz capacity essentially in all its systems. In Portugal and in most of Europe, PAL B and PAL G (Phase Alternated Line) television standards are used and each analog channel requires 7 MHz (PAL B is used up to 300 MHz) and 8 MHz (PAL G is used above 300 MHz) of bandwidth compared to 6 MHz in North America, which uses the NTSC (National Television System Committee) standards. An infrastructure with 750 MHz capacity in Portugal allows for the transmission of up to 83 analog channels.

KEY PERFORMANCE INDICATORS

Cogeco Cable is dedicated to increasing shareholder value and consequently focuses on optimizing profitability while efficiently managing its use of capital without jeopardizing future growth. The following key performance indicators are closely monitored to ensure that business strategies and objectives are closely aligned with shareholder value creation. The key performance indicators are not measurements in accordance with Canadian GAAP and should not be considered an alternative to other measures of performance in accordance with GAAP. The Corporation's method of calculating key performance indicators may differ from other companies and, accordingly, these key performance indicators may not be comparable to similar measures presented by other companies.

RETURN ON EQUITY

Return on equity is defined as net income divided by average shareholders' equity (computed on the basis of the beginning and ending balance for a given fiscal year). Return on equity measures the Corporation's effectiveness in generating net income on a given capital base from our shareholders. Cogeco Cable's key goal in the coming years is to achieve a return on equity of 10%.

OPERATING INCOME BEFORE AMORTIZATION GROWTH AND OPERATING MARGIN

Operating income before amortization excludes unusual items that are non-recurring revenue or expense items such as restructuring charges. Operating margin is calculated by dividing operating income before amortization with revenue. Operating income before amortization growth and operating margin are benchmarks commonly used in the telecommunications industry, as they allow comparisons with companies that have different capital structures and are more current measures since they exclude the impact of historical investments in assets. Operating income before amortization indicators assess Cogeco Cable's ability to seize growth opportunities in a cost effective manner, to finance its ongoing operations, and to service its debt. Operating income before amortization is a proxy for cash flow generated from operations excluding the impact of the capital structure chosen. Consequently, operating income before amortization is one of the key metrics used by the financial community to value the business and its financial strength.

FREE CASH FLOW

Free cash flow is defined as cash flow from operations less capital expenditures (including assets acquired under capital lease that are disclosed in Note 15 b) on page 59 which are not reflected in the consolidated statements of cash flow) and increase in deferred charges. The financial community also closely follows this indicator since it measures the business' ability to repay debt, distribute capital to its shareholders and finance its growth.

RGU GROWTH AND PENETRATION OF SERVICE OFFERINGS

RGU expansion is a critical driver of revenue growth and measures the success of the marketing strategy and the competitiveness of the service offering and pricing. Penetration statistics measure Cogeco Cable's market share. Cogeco Cable computes the penetration for basic services as a percentage of homes passed and, in the case of all other services, as a percentage of basic customers in the cable systems where the service is offered.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements in accordance with Canadian GAAP requires management to adopt accounting policies and to make estimates and assumptions that affect the reported amounts of assets and liabilities, contingent assets and liabilities, and revenue and expenses during the reporting year. A summary of the Corporation's significant accounting policies is presented in Note 1 on page 42 of the consolidated financial statements. The following accounting policies were identified as critical to Cogeco Cable's business operations:

REVENUE RECOGNITION

The Corporation considers revenue to be earned as services are rendered, provided that ultimately collection is reasonably assured. The Corporation earns revenue from several sources. Revenue recognition from the main sources is as follows:

- Monthly fees from cable television and related services, from HSI services and from Telephony services are recognized when services are provided.
- Since management considers the sale of home terminal devices as a single unit of accounting of a multiple element arrangement, equipment revenue is recorded upon activation of the service.
- Installation revenue is deferred and amortized over the average life of a customer's subscription, which is four years. Management considers that installation revenue is part of a multiple element arrangement and has no standalone value. Accordingly, installation revenue is deferred and amortized at the same pace as cable television, HSI services and Digital Telephony monthly fees are earned.
- Promotional offers are accounted for as a deduction of revenue when customers are taking advantage of such offer.

ALLOWANCE FOR DOUBTFUL ACCOUNTS

A large proportion of the Corporation's revenue is earned from individual customers. Accordingly, allowance for doubtful accounts is calculated by examining such factors as the number of overdue days of the customer's balance owing as well as the customer's collection history with Cogeco Cable. As a result, conditions causing fluctuations in the aging of customer accounts will directly impact the reported amount of bad debt expenses.

CAPITALIZATION OF DIRECT LABOUR AND OVERHEAD

As outlined in the recommendations of the Canadian Institute of Chartered Accountants (CICA) with respect to property, plant and equipment, capitalization of costs includes the expenditures to acquire, construct, develop or improve an item of property, plant or equipment, and includes all costs directly attributable to those activities. The cost of an item includes direct construction or software development costs, such as materials and labour, and overhead costs directly attributable to the construction or software development activity. The cost to enhance the service potential of an item is considered an improvement and as a result is capitalized. Costs incurred in the maintenance of service potential are expensed.

Cogeco Cable capitalizes direct labour and direct overhead costs incurred to construct new assets, enhance existing assets and connect new customers. Although capitalization of financial expense is permitted for construction activities, it is the Corporation's policy not to capitalize them.

AMORTIZATION POLICIES AND USEFUL LIVES

Cogeco Cable amortizes fixed assets over the estimated useful lives of the items. In estimating useful lives, the Corporation considers such factors as life expectancy of the assets, changing technologies and cable industry trends. The Corporation reviews its useful lives estimates on a regular basis. If changes in the above-mentioned factors happen more quickly than anticipated, Cogeco Cable might have to shorten the estimated life of certain assets, which could result in a higher amortization expense in future periods.

CAPITALIZATION OF LAUNCH COSTS, COSTS TO ACQUIRE CUSTOMERS AND SUBSIDIES ON EQUIPMENT

The Corporation incurs significant marketing costs during the launch of new services, such as new digital tiers, VOD, HSI and Digital Telephony services. These costs are capitalized and amortized over a period of five years, the estimated period during which these costs are to provide benefit. Cogeco Cable's experience indicates that it takes approximately five years for the new services to reach a certain maturity level.

In addition, significant costs are incurred to reconnect customers and to attract new cable, HSI and Digital Telephony customers. These costs include material and labour costs incurred to reconnect customers as well as subsidies given to customers on the sale of home terminal devices. Reconnect costs are capitalized up to a maximum amount not exceeding the revenue generated by the reconnect activity. These costs are amortized over a period of four years, which represent the average life of a customer's subscription since no term is specified for which the customer will receive the services. The average life of a customer's subscription is reviewed annually and changes could have a significant impact on the amortization expense.

IMPAIRMENT OF LONG-LIVED ASSETS

The Corporation reviews, when a triggering event occurs, the carrying values of its long-lived assets by comparing the carrying amount of the asset or group of assets to the expected future undiscounted cash flows to be generated by the asset or group of assets. An impairment loss is recognized when the carrying amount of an asset or group of assets held for use exceeds the sum of the undiscounted cash flows expected from its use and eventual disposition. The impairment loss is measured as the amount by which the asset carrying amount exceeds its fair value. Future cash flows are based on internal forecasts and consequently, considerable management judgement is necessary to estimate future cash flows. Significant changes in assumptions could result in impairment of these assets.

IMPAIRMENT OF CUSTOMER BASE

The valuation of customer base is subject to review for impairment whenever significant events or changes in circumstances occur, to determine if carrying value can be recovered. In conducting impairment testing, the Corporation compares the carrying value to the sum of discounted cash flows. Future cash flows are based on internal forecasts and discounted by using a weighted average cost of capital rate. Considerable management judgment is necessary to estimate future cash flows. Significant changes in assumptions could result in impairment of this asset. The Corporation's impairment test is performed as at August 31 of each fiscal year.

INCOME TAXES

The Corporation uses assumptions to estimate income tax expenses as well as future income tax liabilities. This process includes estimating the actual amount of income taxes payable and evaluating income tax loss carry-forwards and temporary differences as a result of differences between the values of the items reported for accounting and tax purposes. Realization of future income tax assets is dependent upon generating sufficient taxable income during the period in which temporary differences are expected to be recovered or settled. The likelihood of realization of future income tax assets is evaluated by considering such factors as estimated future earnings based on internal forecasts, prudent and feasible tax planning strategies and reversal of temporary differences that result in future income tax liabilities. Future income tax assets and liabilities are calculated according to enacted or substantially enacted income tax rates expected to be applied to taxable income in the years in which those temporary differences are expected to be recovered or settled. Future income tax assets are recognized only to the extent that, in the opinion of management, it is more likely than not that the future income tax assets will be realized. Accordingly, changes in assumptions will directly impact the reported amount of income tax expenses.

FOREIGN CURRENCY TRANSLATION

Financial statements of self-sustaining foreign subsidiaries are translated in Canadian dollars using the rate in effect at the balance sheet date for asset and liability items, and using the average exchange rates during the period for revenue and expenses. Adjustments arising from this translation are deferred and recorded in the foreign currency translation adjustment account and are included in income only when a reduction in the investment in these foreign subsidiaries is realized.

Other assets and liabilities denominated in foreign currency are translated in Canadian dollars at exchange rates prevailing at the balance sheet date for monetary items and at transaction date for non-monetary items. Revenue and expenses are translated at average rates prevailing during the period except for transactions being hedged which were translated using the terms of the hedges. Amounts payable or receivable on cross-currency swaps, all of which are used to hedge foreign currency debt obligations are recorded concurrently with the unrealized gains and losses on the obligations being hedged. Other foreign exchange gains and losses are included in net income, except for unrealized foreign exchange gains and losses on long-term debt denominated in foreign currencies, that is designated as a hedge of a net investment in a self-sustaining foreign subsidiary, which are included in the foreign currency translation adjustment account.

CONTINGENCIES AND COMMITMENTS

The Corporation is subject to various claims and contingencies related to lawsuits, taxes and commitments under contractual and other commercial obligations. The contractual and other commercial obligations primarily relate to network fees and operating lease agreements for use of transmission facilities. The Corporation recognizes liabilities for contingencies and commitments when a loss is probable and can be estimated. Significant changes in assumptions as to the likelihood and estimates of a loss could result in the recognition of an additional liability.

RELATED PARTY TRANSACTIONS

Cogeco Cable is a subsidiary of COGECO which holds 39.2% of the Corporation's equity shares, representing 86.6% of the Corporation's voting shares. As of September 1, 1992, Cogeco Cable executed a management agreement with COGECO under which the parent company agreed to provide certain executive, administrative, legal, regulatory, strategic and financial planning services and additional services to the Corporation and its subsidiaries (the "Management Agreement"). These services are provided by COGECO's officers, including the President and Chief Executive Officer; the Vice President, Finance and Chief Financial Officer; and the Vice President, Corporate Affairs. No direct remuneration is payable to such officers by the Corporation. The Corporation granted 31,743 stock options to its officers, who also are COGECO's officers, during the 2006 fiscal year, compared to 38,397 in the 2005 fiscal year.

Under the Management Agreement, the Corporation pays monthly fees equal to 2% of its total revenue to COGECO for the above-mentioned services. In 1997, the management fee was capped at \$7 million per year, subject to annual upward adjustments based on increases in the Consumer Price Index in Canada. Accordingly, for the year ended August 31, 2006, the maximum amount of \$8.4 million was paid to COGECO, compared to \$8.2 million in 2005, which represents about 1.4% of the Corporation's total revenue for fiscal 2006 compared to 1.5% for fiscal 2005. The Audit Committee of the Corporation can increase the cap under certain circumstances upon request to that effect by COGECO. In addition, the Corporation reimburses COGECO's out-of-pocket expenses incurred in respect to services provided to the Corporation under the Management Agreement. In fiscal 2007, the management fee will be increased, pursuant to the Management Agreement, by 2.1% which is equal to the increase in the Consumer Price Index in Canada.

ADOPTION OF NEW ACCOUNTING STANDARDS

FISCAL 2005

ASSET RETIREMENT OBLIGATIONS

In March 2003, the CICA issued Handbook section 3110, *Asset Retirement Obligations*, which provides guidance for the recognition, measurement and disclosure of liabilities for asset retirement obligations and the associated costs. Some of Cogeco Cable's lease agreements contain provisions requiring the Corporation to dismantle facilities or remove equipment in the event that the lease agreement is not renewed. However, the Corporation expects to renew most of its lease agreements related to the continued operation of the cable business, and, consequently, any liability related to dismantling, if any, are considered not significant to the consolidated financial statements.

VARIABLE INTEREST ENTITIES

In June 2003, the CICA issued Accounting Guideline 15 (AcG-15), *Consolidation of Variable Interest Entities*, which defines Variable Interest Entities (VIE) as entities that have insufficient equity or their equity investors lack one or more specified essential characteristics of a controlling financial interest. The standard provides guidance for determining when an entity is a VIE and which entity, if any, should consolidate the VIE. During fiscal 2005, the Corporation adopted this new accounting guideline and concluded that it has no significant impact on these consolidated financial statements.

FISCAL 2006

NON-MONETARY TRANSACTIONS

In June 2005, the CICA issued Handbook section 3831, *Non-Monetary Transactions*, which revised and replaced the current standards on non-monetary transactions. Under the new section, the criterion for measuring non-monetary transactions at fair value is modified to focus on the assessment of commercial substance instead of the culmination of the earnings process. A non-monetary transaction has commercial substance when the entity's future cash flows are expected to change significantly as a result of the transaction. These standards are effective for non-monetary transactions initiated in periods beginning on or after January 1, 2006. During fiscal year 2006, the Corporation adopted these new standards and concluded that they had no significant impact on these consolidated financial statements.

FUTURE ACCOUNTING PRONOUNCEMENTS

FINANCIAL INSTRUMENTS, HEDGES AND COMPREHENSIVE INCOME

In January 2005, the CICA issued Handbook section 3855, *Financial Instruments – Recognition and Measurement*, Handbook section 3865, *Hedges* and Handbook section 1530, *Comprehensive Income*.

Section 3855 establishes standards for recognition and measurement of financial assets, financial liabilities and non-financial derivatives. The standard specifies when and to which amount a financial instrument is to be recorded on the balance sheet. Financial instruments are to be recorded at fair value in some cases, and at cost in others. The section also provides guidance for disclosure of gains and losses on financial instruments.

Section 3865 includes and replaces the guidance on hedging relationships that was previously contained in AcG-13, mostly those relating to the designation of hedging relationships and its documentation. The new standard specifies how to apply hedge accounting and which information has to be disclosed by the entity.

Section 1530 establishes standards for reporting and display of comprehensive income. Comprehensive income includes net income as well as all changes in equity during a period, from transactions and events from non-owner sources. Comprehensive income and its components should be presented in a financial statement with the same prominence as other financial statements.

These sections are to be applied to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2006. The Corporation is currently evaluating the impact of these new standards.

CONTROLS AND PROCEDURES

The application of Bill 198 and its regulations represents an exercise in continuous improvement, which is leading the Corporation to formalize processes and control measures that are already in place and to introduce new ones. Cogeco Cable has chosen to make this a strategic endeavour, which will result in operational improvements and better management.

The President and Chief Executive Officer and the Vice President, Finance and Chief Financial Officer, together with management, have evaluated the effectiveness of the Corporation's disclosure controls and procedures and the design of internal controls over financial reporting as of August 31, 2006. They have concluded that the Corporation's disclosure controls and procedures were adequate and effective to ensure that material information relating to the Corporation is complete and reliable. However, certain material weaknesses were identified in the design of internal controls over financial reporting at that date.

On August 1, 2006, Cogeco Cable purchased Cabovisão in Portugal. Due to the short period of time between the purchase date and the certification date of August 31, 2006, management was unable to complete its review of internal controls over financial reporting for the newly acquired Portuguese subsidiary. At year end, related disclosure control risks were mitigated as all assets and liabilities acquired related to the new subsidiary were evaluated and recorded in the consolidated financial statements as part of the purchase price allocation and the one month results of operations of Cabovisão were also included in the consolidated results.

The Corporation has implemented an awareness program relating to its Corporate Code of Conduct. As at August 31, 2006, all employees of the Corporation have received and read the Corporate Code of Conduct except for employees of the newly acquired subsidiary, Cabovisão, who will complete the program by March 2007.

In recent years increased penetration of Digital Television, HSI and Digital Telephony services and the launch of different types of home terminal devices has heightened the complexity of tracking such customer premise equipment. Existing information systems at Cogeco Cable record such equipment located in its warehouse as fixed assets rather than as inventory, and the home terminal devices are subject to amortization once received. Management is currently considering a program to monitor and track its home terminal devices from their initial purchase to their return by customers. The implementation of such a system could result in an adjustment to the carrying value of these assets.

Material weaknesses related to access controls over various databases were observed. The Corporation will begin monitoring system access and reviewing the adequacy of segregation of duties as part of the design of the Corporation's processes. Remediation of these processes will gradually be designed and implemented.

UNCERTAINTIES AND MAIN RISK FACTORS

This section outlines general as well as more specific risks faced by Cogeco Cable and its subsidiaries that could significantly affect the financial condition, operating results or business of the Corporation. It does not purport to cover all contingencies, or to describe all possible factors that might have an influence on the Corporation or its activities at any point in time. Furthermore, the risks and uncertainties outlined in this section may or may not materialize in the end, may evolve differently than expected, or may have different consequences than those that are being currently anticipated.

Cogeco Cable applies an on-going risk management process that includes a quarterly assessment of risks for the Corporation and its subsidiaries, under the oversight of the Audit Committee. As part of this process, the Corporation endeavours to identify risks that are liable to have a major impact on the Corporation's financial situation, revenue or activities, and to mitigate such risks proactively as may be reasonable and appropriate under the circumstances. This section reflects current views on uncertainties and main risk factors considered as a part of this process.

RISKS PERTAINING TO MARKETS AND COMPETITION

Broadband telecommunications markets in Canada and Portugal are very dynamic and highly competitive. They involve intense rivalry between a variety of terrestrial wireline and wireless, as well as satellite, service providers over a widening suite of broadband services that include fixed and mobile voice communications, Internet access, data communications, audio and video content delivery, electronic programming guides and navigation, security and other related or incidental services. While cable broadband telecommunications providers have entered into the voice and data communications markets traditionally dominated by incumbent telephone companies, the telephone companies are increasingly involved in audio and video content delivery, as part of a global phenomenon known as convergence. A number of new competitors have also entered various telecommunications markets through the use of the Internet and access to the facilities of telephone and cable telecommunications companies.

In this converged environment, competition increasingly unfolds over bundles of services offered at attractive package rates, as competitors strive to meet all the communications needs of residential and business customers and thus obtain maximum share of their overall communications budget. Rivalry extends over the composition of service bundles, bundle prices and perceived value, promotional or introductory offers, term of commitment by the customer, terminal devices and customer service. The substantial cost of broadband facilities and broadband customer acquisition, combined with the significant annual growth rates of revenue generating units achieved by competitors generally tend to make outright price wars on individual services and service bundles less appealing as a competitive strategy. As markets mature and penetration gains for high speed Internet access, digital video and digital telephony services abate, retail pricing strategies may become more aggressive, with resulting downward pressure on operating margins of both individual services and service bundles.

Cogeco Cable provides “double-play” and “triple-play” service bundles in its various geographic markets, with various combinations of voice, Internet and video distribution services being offered at attractive bundle prices. “Quadruple-play” service bundles that include mobile communications have appeared in these markets, but so far they have had limited effect in the marketplace. Cogeco Cable continues to focus at this time on its existing lines of service with a view to capturing the remaining growth opportunities for HSI, Digital Television and Digital Telephony services in its footprint, making the most efficient use of its own hybrid fibre-coaxial (HFC) plant. Mobile telephone operators are now offering audio and video content distribution directly to their mobile telephone customers, but this new form of content distribution has so far had no measurable impact on the use of wireline and satellite content distribution. As markets evolve and mobility becomes a more cost-effective substitute to wireline communications, Cogeco Cable and its subsidiaries may need to add mobility components to its service bundles, through suitable mobile virtual network arrangements with existing mobile operators.

In Canada, Cogeco Cable faces competition in its service areas mainly from two national direct-to-home satellite distribution services, Star Choice and Bell ExpressVu (the latter controlled by BCE Inc., the largest and most widely integrated Canadian telecommunications company), and from incumbent telephone companies Telus, Bell Canada (controlled by BCE Inc.) and Bell Nordiq (also controlled by BCE Inc.). Star Choice and Bell ExpressVu both offer a wide range of competitive audio and video services on a fully digital basis. Telus, Bell Canada and Bell Nordiq all offer a wide range of business and residential Internet access, voice and data telecommunications services. Rogers, Telus and Bell Canada respectively operate mobile telecommunications services in Ontario and Québec. In addition, Telus now offers audio and video distribution services in the Lower St. Lawrence area in direct competition with Cogeco Cable. Telus and Bell Canada have recently announced that they will become income trusts. However, Cogeco Cable and Telus cooperate in other parts of Cogeco Cable’s footprint to offer Cogeco Cable’s Digital Telephony service. Bell Canada offers a new digital telephone service in Ontario and Québec and is expected to launch some time in 2007 a new digital video distribution service over its wireline network, starting with larger urban centres in Ontario and Québec, some of which are included in Cogeco Cable’s cable network footprint. Cogeco Cable also competes with other telecommunications service providers, including Vonage, Primus and Rogers Home Phone (formerly known as Sprint), and with alternative service providers who use resale or third-party access arrangements in effect. Although spectrum has been allocated for broadband wireless distribution alternatives for quite some time, this form of wireless competition has been slow to develop in Cogeco Cable’s footprint. It may however become a more significant competitive factor in coming years.

In Portugal, Cogeco Cable's subsidiary Cabovisão faces competition in its service areas mainly from incumbent telecommunications carrier Portugal Telecom, SGPS, S.A. (PT) and its subsidiaries, from diversified Portuguese conglomerate Sonae and ONI SGPS, S.A. (Sonae) and its subsidiaries, and from telecommunications operator ONI whose main shareholder is Energias do Portugal (EDP), the incumbent electricity service provider in Portugal. In addition to the national telephone network operator PT Comunicações, PT owns TV Cabo, the largest cable broadband operator in Portugal, which also offers a direct-to-home satellite television distribution service to the Portuguese market. Sonae owns and operates the Clix and Novis services, which provide voice, data, and high speed Internet services respectively to the residential and business markets. PT, Sonae and ONI provide mobile telecommunications services in Portugal, through their respective subsidiaries as well as Vodafone. Other competitors include AR Telecom (formerly known as Jazztel), Tele 2 and Redvo Telecom, a recently launched broadband microwave distribution service using Wi-Max technology. Until recently, Cabovisão has been the only provider of full "triple-play" service bundles in its footprint, but Clix has recently launched a digital video distribution service over telephone lines, and its competitive "triple-play" service bundles are expected to extend progressively to approximately 60% of Cabovisão's footprint. TV Cabo, has started offering digital telephone services on Session Initiation Protocol (SIP) as well as a digital video service, and is thus also in a position to offer competitive "triple-play" service bundles to approximately 60% of Cabovisão's footprint. Cabovisão's video distribution services are analog only, and do not include true VOD at this time, but Cabovisão is actively considering the opportunity and timing for the roll-out of its own digital services, as its HFC plant has the capacity to accommodate digital services in addition to all its existing analog services.

The broadband telecommunications competitive landscape in Portugal differs from that prevailing in Canada mainly in the following respects: the density of urban dwelling units within the Corporation's footprint in Portugal is approximately double that of its footprint in Canada, there is overlapping competitive cable plant over approximately 60% of Cabovisão's footprint and this competitive cable plant is presently controlled by the incumbent telephone company, but there is only one Portuguese direct-to-home satellite competitor, and direct-to-home satellite service penetration is very limited in urban areas.

The level of piracy of video signals and the actual penetration of illicit reception of video distribution services in households within the Corporation's service areas may also have a significant effect on the Corporation's business and the competitiveness of its service bundles.

TECHNOLOGICAL RISKS

The evolution of telecommunications technologies is very rapid, fuelled by a highly competitive global market for digital content, consumer electronics and broadband products and services. The Corporation monitors the development of technologies used for the transmission, distribution, reception and storage of data and their deployment by various existing or potential competitors in the broadband telecommunications markets.

There are now several terrestrial and satellite transmission technologies available to deliver a range of electronic communications services to the home with varying degrees of flexibility and efficiency, and they compete with cable broadband telecommunications. While the broadband over power line (BPL) alternative has made little headway to date, the competitive threat posed by other alternatives such as 3G and Wi-Max broadband wireless technologies, advanced digital subscriber line technologies such as VDSL+, and the deployment of fibre to the premises (FTTP) or close to the premises (FTTN) by incumbent telephone companies is growing with each passing year.

On the other hand, cable telecommunications also continue to benefit from rapid improvements, particularly in the areas of modulation, digital compression, fractioning of optoelectronic links, multiplexing, HD distribution and switched video distribution. Management of the Corporation remains of the view that broadband wireline distribution over fibre and coaxial cable will continue to be an efficient, reliable, economical and competitive platform for the distribution of a full range of electronic communications products and services for the foreseeable future. The competitiveness of the cable broadband telecommunications platform will however continue to require additional capital investment on a timely basis in an increasingly competitive and uncertain market environment.

The growth in penetration of broadband connections of all types, the rapid increase in transmission speeds offered by competitors in the market, and the emergence of the more powerful MPEG-4 video standard promote the increased distribution and consumption of video content directly over the Internet. Video content, which is bandwidth-intensive, already accounts for over 50% of total peer-to-peer data traffic on the Internet. This may lead eventually to fragmentation of the retail market for existing analog and digital video distribution services provided by the Corporation, and gradual disintermediation as between video content suppliers and the Corporation's customers. In this context, revenue and margins derived from the Corporation's HSI services may not entirely compensate for the loss of revenue or margin derived from the Corporation's video distribution services in the future. Alternative voice and data communications services are proliferating as well over the Internet, with the resulting risk that fragmentation and disintermediation may also occur in the future with respect to the Corporation's Digital Telephony service.

Electronic communications increasingly rely on advanced security technology and devices to ensure conditional access and service integrity. Security technology is provided worldwide by a small pool of global suppliers on a proprietary basis. Like other providers of electronic communications, the Corporation depends on the effectiveness of security technology for many of its services and the ability of security technology providers to offer cost-effective and timely solutions as, if and when existing levels of security are compromised.

REGULATORY RISKS

In Canada, broadband telecommunications facilities and services are subject to regulatory requirements depending mainly on the type of facilities involved, the incumbent status of service providers and their relative market power, the technology used and whether the activities are categorized as telecommunications or broadcasting. Canadian cable broadband telecommunications facilities and services are subject to various requirements mainly under federal legislation governing broadcasting, radiocommunication, telecommunications, copyright, and privacy, and under provincial legislation governing consumer protection and access to certain property and power utilities support structures. Licences are still required for the operation of larger (Class 1 and 2) cable systems, while smaller (Class 3) cable systems are now mostly licence-exempt. Various licence and licence exemption conditions continue to apply in Canada. Canadian cable operators are also subject to Canadian ownership and control requirements.

A recently published report by the Telecommunications Policy Review Panel (TPRP) contains a broad set of recommendations that include a timely transition to deregulation of all telecommunications services, the creation of a specialized telecommunications competition tribunal, a review of the *Telecommunications Act* (Canada), and the removal of ownership restrictions for telecommunications carriers, subject to certain conditions. The report also considers that the traditional separation of broadcasting distribution and telecommunications activities for regulatory purposes is no longer appropriate in a converged market environment. The federal government has tabled a policy direction to the Canadian Radio-Television and Telecommunications Commission (CRTC) with a view to limiting regulation of telecommunication services as much as possible and to relying on market forces to the maximum extent feasible, and it is expected to table a new bill on telecommunications in the near future. The federal government has also requested that the CRTC report back by the end of 2006 and provide answers to a broad range of questions on the future of the Canadian broadcasting system, which includes the distribution of broadcasting services.

While this overall policy review process is unfolding, two key telecommunications decisions of the CRTC concerning respectively the regulatory status of voice-over-IP (VOIP) local access telephone services of incumbent telephone companies and forbearance from regulation of local access telecommunications services still regulated by the CRTC have been challenged by incumbent telephone companies. The CRTC confirmed on September 1, 2006 its decision to continue regulating VOIP local access telephone services of incumbent telephone companies until certain conditions are met, but has agreed to reconsider the required threshold of 25% loss of market share by incumbent telephone companies in the relevant markets in order for deregulation to occur. This decision may be further challenged by incumbent telephone companies. It is not known at this time whether the federal government will require the reconsideration of, or will set aside, the decision of the CRTC respecting regulatory forbearance for local access telephone services generally. The ultimate outcome and timing of the policy review process and challenges to these key telecommunications decisions may have a significant impact on the development of the Corporation's new Digital Telephony service line of business, and incidentally on the marketing strategies for service bundles that include Digital Telephony service.

The CRTC has recently initiated a policy review proceeding for over-the-air television in Canada that raises the possible establishment of fees for carriage of conventional over-the-air television signals by broadcasting distributors, including cable, telephone and satellite distributors. The World Intellectual Property Organization (WIPO) is also considering the issue of fees for carriage as part of its proceedings leading to the drafting of a new multilateral treaty concerning the protection of broadcasting signals. At present, Canadian broadcasting distributors pay carriage fees to pay and specialty programming services, but not to conventional over-the-air television services. Next year, the CRTC is also expected to launch a review of its broadcasting distribution policies. The ultimate outcome and timing of these policy initiatives may have a significant impact on the Corporation's cost of sales for its analog and digital services and the penetration of its various tiers of video distribution services.

In Portugal, a broad reform of national legislation respecting electronic communications has already occurred with the publication of Law 5/2004 (Electronic Communications Law, known as REGICOM) on February 10, 2004, in line with the basic requirements of applicable European Commission directives. Under this new national legislation, the Autoridade Nacional das Comunicações (ANACOM), has implemented a general authorization regime which no longer involves the issuance of licences for wireline telecommunications activities. The telecommunications markets in Portugal are fully open to competition since January 1, 2000, and there are no foreign ownership restrictions applying to electronic communications service providers or the ownership of broadband telecommunications facilities in Portugal. Much of ANACOM's regulatory oversight is focused at present on the analysis of the competitive state of relevant telecommunications markets and the adoption of selected measures where significant market power by a competitor is found to exist in a relevant market. ANACOM has analyzed 16 of the 18 relevant retail and wholesale markets identified by the European Commission and found that PT has significant market power in most of these markets. As a result, various specific regulatory requirements apply to the provision of certain services by PT companies. In addition, pursuant to Directive 2002/77/EC of the European Commission (Competition Directive), the cable television and telecommunications network operations of incumbent telephone companies in EU member states must be kept separate, and conducted through separate entities. TV Cabo, Cabovisão's direct cable competitor for video distribution and HSI services, is operated through PT Multimedia, an entity separate from PT Comunicações, which operates PT's telecommunications network (telephony and ADSL HSI services), and services provided by each of these entities are billed separately. The ownership and operating conditions of various entities of PT, including PT Multimedia, may however change in the foreseeable future as a result of the pending takeover bid by Sonae, alternative bids by other interested parties, or ownership or restructuring proposals put forward by PT itself. There is a possible scenario of having two full triple play companies, PT Comunicações and PT Multimedia, owned by separate groups, with the conclusion of the pending takeover bid by Sonae, with each significant market power, and possible new regulatory requirements as a result.

On June 29, 2006, the European Commission launched a broad policy review initiative on electronic communications with a view to boosting competition among telecommunications operators of EU member states and building a single market for services that use radio spectrum. The ultimate outcome and timing of these legislative proposals, and their transposition into Portuguese domestic law and policies, may eventually have an impact on the future on Cabovisão's electronic communications activities and on the future state of competition for the provision of electronic communications in Portugal.

RISKS PERTAINING TO OPERATING COSTS

Cogeco Cable applies itself on to keeping its cost of goods sold in check so as to secure continued operating margin growth. The two largest drivers of cost of goods sold are network fees paid to audio and video service suppliers, and data transport and connectivity charges, mostly for Internet traffic. The market for audio and video programming services in Canada is already characterized by high levels of supplier integration, structural rigidities imposed by the CRTC's regulatory framework for broadcasting distribution, and the resulting strong bargaining position of program suppliers. The recently announced takeover of CHUM Limited by Bell Globemedia Inc., if approved by the CRTC and the Commissioner of Competition, would significantly increase the level of concentration of Canadian conventional over-the-air, specialty and pay television programming services in the Canadian marketplace generally, and would significantly increase the market power of Bell Globemedia Inc. The renewal of Cogeco Cable's affiliation agreements for CHUM and Bell Globemedia specialty services are currently under negotiation.

Since the markets for data transport and connectivity remain very competitive in Canada and Portugal, Cogeco Cable and Cabovisão have negotiated cost effective arrangements in the past for voice and data traffic. However, as overall traffic increases and capacity on existing broadband telecommunications facilities becomes more widely used, the Corporation may not be able to secure further cost efficiencies in the future.

In Portugal, the offering of new digital audio and television services by Cabovisão will require the negotiation of suitable arrangements with existing or new program suppliers. Although affiliation arrangements and program service bundling and retailing are less constrained by regulations in Portugal than in Canada, the negotiation of such new arrangements has not yet taken place.

RISKS PERTAINING TO INFORMATION SYSTEMS

Flexible, reliable and cost-effective information systems are an essential requirement for the handling of sophisticated service options, customer account management, internal controls, provisioning, billing and the roll-out of new services. The Corporation uses different customer relations management tools and databases for its operation respectively in Ontario, Québec and Portugal. The agreement with the main third-party supplier of information systems in Ontario will expire in 2008, and the terms that would apply for the continued use of the relevant information systems in Ontario are under negotiation.

RISKS PERTAINING TO DISASTERS

The Corporation has a disaster recovery plan for dealing with the occurrence of natural disasters, quarantine, power failures, terrorist acts, intrusions, computer hacking or data corruption, but the operations and facilities of Cabovisão are not yet integrated into this plan, given the fact that Cabovisão became a subsidiary of Cogeco Cable only on August 1, 2006. Cabovisão's insurance coverage has been integrated in Cogeco Cable's insurance coverage. The emergency plans and procedures that are in place cannot provide the assurance that the effect of any disaster can and will be mitigated as planned. Cogeco Cable is not insured against the loss of data and relies on data protection and recovery systems that it has put in place with third-party service providers in Canada.

RISKS PERTAINING TO THE FINANCING OF THE CABOVISÃO ACQUISITION

The acquisition of Cabovisão has been financed through corporate credit facilities of Cogeco Cable. The major part of the purchase price for Cabovisão (approximately €465.7 million) was borrowed directly in euros and a second tranche of \$150 million was borrowed in Canadian dollars and subsequently converted into euros (€104 million). The remainder of the purchase price is assumed liabilities. There are no financial hedging arrangements in effect at this time for interest fluctuation risks on interest payments resulting from these borrowings, but there is a natural hedging effect between the borrowings in euros and the inter-corporate debt interest payments and cash distributions in euros originating from the European subsidiaries. Also, for the purposes of this acquisition, Cogeco Cable has set up a structure involving one of its operating Canadian subsidiaries and intermediate holding and financing entities located in Luxembourg with a view to maximizing returns. The Corporation is presently considering financial arrangements to extend the term with alternate sources of financing and to set the interest rate of the Term Facility.

PERFORMANCE HIGHLIGHTS

CUSTOMER STATISTICS

CANADIAN OPERATIONS

	AUGUST 31, 2006	ACTUAL	NET ADDITIONS (LOSSES)		% OF PENETRATION ⁽¹⁾	
			2006	2005	AUGUST 31,	
			INITIAL GUIDANCE ⁽²⁾	ACTUAL	2006	2005
RGUS ⁽³⁾⁽⁵⁾	1,555,936	208,203	111,000 – 129,000	81,834	NA	NA
BASIC SERVICE CUSTOMERS	833,177	11,744	0 – 3,000	(2,422)	NA	NA
HSI SERVICE CUSTOMERS ⁽⁴⁾	343,080	65,432	32,000 – 37,000	38,040	44.3	37.7
DIGITAL TELEVISION SERVICE CUSTOMERS ⁽⁵⁾	327,364	80,160	47,000 – 52,000	44,768	40.0	30.7
DIGITAL TELEPHONY SERVICE CUSTOMERS	52,315	50,867	32,000 – 37,000	1,448	10.4	0.2

(1) AS A PERCENTAGE OF BASIC SERVICE IN AREAS SERVED.

(2) ACCORDING TO THE FISCAL 2005 ANNUAL REPORT.

(3) REPRESENT THE SUM OF BASIC, DIGITAL TELEVISION, HSI AND DIGITAL TELEPHONY SERVICE CUSTOMERS.

(4) CUSTOMERS SUBSCRIBING ONLY TO INTERNET SERVICES AMOUNTED TO 61,208 AS AT AUGUST 31, 2006 COMPARED TO 55,057 AS AT AUGUST 31, 2005.

(5) THE NUMBER OF DIGITAL TELEVISION SERVICE CUSTOMERS FOR FISCAL 2005 WAS RESTATED TO REFLECT CHANGES BROUGHT ABOUT BY THE CORPORATION'S BILLING IMPROVEMENT PROGRAM, WHICH HAS ALLOWED COGECO CABLE TO IDENTIFY DIGITAL TELEVISION SERVICE CUSTOMER ACCOUNTS THAT WERE NOT CANCELLED WHEN THEY BECAME INACTIVE. THIS CHANGE RESULTED IN A DOWNWARD ADJUSTMENT OF 8,085 CUSTOMERS AS AT AUGUST 31, 2005.

In fiscal 2006, all services generated higher growth compared to the same period last year, especially the growth in the Digital Telephony service, which is mostly attributable to the launch of this service in new markets. Service coverage has reached 66% of homes passed as at August 31, 2006 compared to 21% last year. Net additions of basic service customers stood at 11,744 compared to a loss of 2,422 in fiscal 2005. The number of net additions of HSI service stood at 65,432 compared to 38,040 in fiscal 2005. The growth of HSI and basic service customers compared to last year is mostly due to the impact of the bundled offer of Television, HSI and Digital Telephony services (triple play), enhancement of the product offering and promotional activities.

The net additions of Digital Television service customers stood at 80,160 compared to 44,768 in fiscal 2005. The 32% increase in the number of Digital Television service customers is driven by the growing interest and increasing demand for the HD format among customers. The impact of the triple play offering and attractive promotional offers were also additional factors.

PORTUGUESE OPERATIONS

	AUGUST 31, 2006	NET ADDITIONS ACTUAL ⁽³⁾	% OF
			PENETRATION ⁽¹⁾ 2006
RGUS ⁽²⁾	629,041	3,141	NA
BASIC SERVICE CUSTOMERS	269,694	1,117	NA
HSI SERVICE CUSTOMERS	136,278	1,165	50.5
TELEPHONY SERVICE CUSTOMERS	223,069	859	82.7

(1) AS A PERCENTAGE OF BASIC SERVICE CUSTOMERS IN AREAS SERVED.

(2) REPRESENT THE SUM OF BASIC, HSI AND TELEPHONY SERVICE CUSTOMERS.

(3) CUSTOMER ADDITIONS ARE FOR THE MONTH OF AUGUST 2006 ONLY.

For the one-month operation period as a subsidiary, all services generated customer growth. Basic service customers grew by 1,117; HSI by 1,165 customers; and telephony by 859 customers.

FINANCIAL RESULTS AND CASH FLOW

For the 2006 fiscal year, Cogeco Cable achieved revenue growth of 11.8%. The Canadian operations revenue rose by 8.8%, surpassing the initial 6% to 7% target. The revenue growth for the Canadian operations is primarily the result of an increase in basic service rates, higher penetration of HSI, Digital Telephony, basic cable and Digital Television services. The acquisition of Cabovisão was completed on August 1, 2006. For fiscal 2006, the Portuguese operations generated \$16.9 million for its first month of operations as a subsidiary of Cogeco Cable. Operating income before amortization rose by 11.2% as Canadian operations increased by 9%, thus exceeding the initial objective of 3% to 4%. This result is attributable to higher revenue per basic service customer, cost controls and process improvement measures.

Financial expense increased by 3%, slightly higher than expected, as a higher level of Indebtedness was required to finance the acquisition of the Portuguese subsidiary, Cabovisão. Amortization declined by 3.4%, which is less than expected, due to the higher capital expenditures arising from the demand for customer premise equipment, scalable infrastructure, upgrade/rebuild, support capital and deferred charges. Amortization for the one-month operation of Cabovisão amounted to \$4.4 million. Cogeco Cable reports net income higher than initial forecasts, standing at \$65.6 million, mainly due to operating income before amortization that was higher than expected and to a non-cash adjustment of about \$20 million in income taxes attributable to a change in Canadian enacted tax rate.

Capital expenditures, including assets acquired under capital leases, and the increase in deferred charges amounted to \$164.4 million, \$24.4 million more than initially expected. This variance is primarily due to an increase in purchases of customer premise equipment, resulting from the greater number of RGUs, to increased upgrade and reconstruction activities and to the one-month capital expenditures of Cabovisão. The deferred charges increase resulted from reconnect costs due to the higher-than-anticipated RGU growth. Free cash flow of \$30.3 million was generated, lower than the \$35 million to \$40 million target initially expected. Free cash flow was about \$5 million to \$10 million less than anticipated and is attributable to increased capital expenditures and deferred charges to support the overall RGU growth, including improved service penetration, as well as the launch of Digital Telephony service, partly offset by an increase in operating income before amortization.

OPERATING AND FINANCIAL RESULTS

OPERATING RESULTS

YEARS ENDED AUGUST 31, (in thousands of dollars except percentage)	2006 \$	2005 \$	CHANGE %
REVENUE	620,001	554,404	11.8
OPERATING COSTS	358,631	318,704	12.5
MANAGEMENT FEES - COGECO INC.	8,392	8,179	2.6
OPERATING INCOME BEFORE AMORTIZATION	252,978	227,521	11.2
OPERATING MARGIN	40.8%	41.0%	

REVENUE

Fiscal 2006 consolidated revenue increased by \$65.6 million, or 11.8%, compared to the same period last year to reach \$620 million.

For fiscal 2006, revenue for the Canadian operations rose by \$48.7 million, or 8.8%, compared to fiscal 2005 mainly as a result of an increase in the number of basic, HSI, Digital Television and Digital Telephony service customers as mentioned in the “Customer Statistics” section, combined with various factors discussed below:

- HSI service customer additions during fiscal 2006 and the full-year impact of the 2005 net additions generated incremental revenue of approximately \$20.9 million over fiscal 2005. The addition of about 65,000 new HSI service customers during fiscal 2006 contributed approximately \$12.7 million to this growth and the addition of about 38,000 HSI service customers during the corresponding period in 2005 accounted for about \$8.2 million.
- Digital Telephony service additions during fiscal 2006 generated incremental revenue of about \$10.7 million over fiscal 2005 due to continued service rollout in our markets.
- Basic cable service customer growth contributed an additional \$4.2 million compared to fiscal 2005.
- Various rate increases during fiscal years 2005 and 2006 created incremental revenue of about \$5.6 million as a result of:
 - Monthly rate increases of at most \$3 per customer and averaging \$0.50 per basic service customer took effect on June 15, 2005 in Ontario and on August 1, 2005 in Québec;
 - The monthly rate for certain bundled services increased by \$1 in Ontario, and other limited rate increases for selective tier services being implemented in Québec. An August 2005 reduction in digital terminal rental rates was more than offset by a greater number of customers renting digital terminals.
 - Monthly rate increases of up to \$3 per customer, averaging \$2 per basic service customer, took effect on June 15, 2006 in Ontario and on August 1, 2006 in Québec.

In addition, new digital services, VOD and equipment rentals contributed about \$9.8 million to revenue growth.

The organic growth, detailed above, was offset by a drop in equipment sales and by incremental promotional activities amounting to approximately \$2.5 million.

The improved penetration of HSI, Digital Telephony and Digital Television services and the rate hikes helped push ARPU up from \$55.43 in fiscal 2005 to \$60.15 in fiscal 2006, an increase of 8.5%.

Cabovisão’s 2006 revenue amounted to \$16.9 million, one-month of revenue. The Portuguese ARPU stood at \$62.66 in August 2006.

OPERATING COSTS AND MANAGEMENT FEES

Fiscal 2006 consolidated operating costs increased by \$39.9 million or 12.5% to reach \$358.6 million.

For fiscal year 2006, Canadian operations’ operating costs including network fees, but excluding management fees payable to COGECO Inc., rose by \$28 million or 8.8%. Network fees increased by 9.3% in fiscal 2006, compared to last year. The network fees increase is mainly attributable to the introduction of the Digital Telephony service, the wholesale rate increase for APTN as mandated by the CRTC and RGU growth. These fees were partly offset by IP transport costs even with the growth in the number of HSI customers. The increase of other operating costs is related to servicing additional RGUs, including Digital Telephony. Cabovisão’s operating costs for the one-month period included in fiscal 2006 amounted to \$11.9 million.

Management fees paid to COGECO Inc. amounted to \$8.4 million, an increase of 2.6% over fiscal 2005, and are discussed in detail in the “Related Party Transactions” section on page 13.

OPERATING INCOME BEFORE AMORTIZATION

Fiscal 2006 consolidated operating income before amortization increased by \$25.5 million or 11.2% to reach \$253 million. Cabovisão's operating income before amortization for the month of August and fiscal 2006 amounted to \$5 million.

Fiscal 2006 operating income before amortization for the Canadian operations rose by \$20.5 million or 9%, compared to fiscal 2005 as the growth in revenue outpaced the rise in operating costs. Cogeco Cable's operating margin for the Canadian operations improved slightly to 41.1% compared to 41% for the same period last year even with the launch of the Digital Telephony service. The Portuguese operations generated an operating margin of 29.5% in August 2006. As a result, Cogeco Cable's operating margin declined from 41% for fiscal 2005 to 40.8% for fiscal 2006.

FIXED CHARGES

YEARS ENDED AUGUST 31, (in thousands of dollars, except percentages)	2006 \$	2005 \$	CHANGE %
AMORTIZATION	120,782	125,088	(3.4)
FINANCIAL EXPENSE	57,366	55,692	3.0

Fiscal 2006 amortization amounted to \$120.8 million compared to \$125.1 million for the same period last year. Amortization declined during fiscal 2006 as many cable modems and digital terminals were fully amortized. Amortization for the one-month operation of the Portuguese operations amounted to \$4.4 million.

Fiscal 2006 financial expense increased by \$1.7 million compared to the same period last year to reach \$57.4 million. This is due to the higher level of Indebtedness required to finance the acquisition of the Portuguese subsidiary, Cabovisão. The average interest rate was 6.3% in fiscal 2006 compared to 7.5% in fiscal 2005. The average interest rate reduction is discussed in the "Capital Structure" section.

INCOME TAXES

For fiscal 2006, income tax expense amounted to \$9.3 million. Excluding the impact of the change in substantially enacted tax rate described below, the expense amounted to \$29.3 million compared to \$18 million for fiscal 2005. The income tax increase, excluding the tax rate change, was mainly attributable to the operating income before amortization growth.

On May 2, 2006, the federal government announced its intention to reduce the corporate income tax rate progressively from 21% to 19% effective in January 2010 and to eliminate the corporate surtax of 1.12% on January 1, 2008. These measures were considered substantially enacted on June 6, 2006, and as a result a non-cash adjustment of \$20 million was recorded in the fourth quarter of fiscal 2006 to reduce future income taxes.

Fiscal 2006 current income taxes of \$4.1 million mainly relate to minimum income tax payable in the Province of Ontario and to large corporation tax, which is computed on the basis of the Corporation's capital base in Canada. Since Cogeco Cable has accumulated non-capital income tax losses of about \$53.9 million for its Canadian operations as at August 31, 2006, most of the income taxes arising from earnings are deferred.

As at December 31, 2005, Cabovisão had deductible temporary differences, which may be used for an indefinite period. The related benefits have not been recognized in the financial statements. The Corporation's subsidiary has also income tax losses of approximately €204.4 million (\$289.4 million), which may be used to reduce future years taxable income subject to confirmation by Portuguese authorities. In accordance with the Portuguese Companies Income Tax Code (CIRC), tax losses incurred in a financial year can be carried forward and deducted from taxable profits of one or more of the following six financial years. However, the CIRC provides for certain exceptions whereby the general rule stated above ceases to apply. One such exception is that tax losses cannot be deducted if the ownership of at least 50% of the social capital changes from the moment when the tax losses were generated, unless a request is filed before such change in the ownership takes place, subject to approval by the Portuguese tax authorities. To this effect, a request for preservation of tax losses was filed by Cabovisão, on July 28, 2006. The benefits resulting from these tax losses have not been recognized in the financial statements.

NET INCOME

In fiscal 2006, net income amounted to \$65.6 million, or \$1.64 per share, compared to \$28.7 million, or \$0.72 per share, in fiscal 2005. Excluding the non-cash adjustment for income tax rate change amounting to \$20 million in 2006, the net income for 2006 would have been \$45.6 million or \$1.14 per share.

During fiscal years 2006 and 2005, stock options for 136,059 and 140,766 subordinate voting shares were granted, respectively. The Corporation recorded compensation expense for options granted on or after September 1, 2003. As discussed in Note 11 on page 56, if compensation cost had been recognized using the fair-value-based method at the grant date for options granted between September 1, 2001 and August 31, 2003, Cogeco Cable's net income for fiscal 2006 and 2005 would have been reduced by \$81,000 and \$384,000 respectively.

CASH FLOW ANALYSIS

YEARS ENDED AUGUST 31, (in thousands of dollars)	2006 \$	2005 \$
OPERATING ACTIVITIES		
CASH FLOW FROM OPERATIONS	194,739	170,938
CHANGES IN NON-CASH OPERATING ITEMS	1,051	23,657
	195,790	194,595
INVESTING ACTIVITIES⁽¹⁾	(739,022)	(123,703)
FINANCING ACTIVITIES⁽¹⁾	615,400	(70,831)
NET CHANGE IN CASH AND CASH EQUIVALENTS	72,168	61
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS DENOMINATED IN FOREIGN CURRENCIES	(713)	—
CASH AND CASH EQUIVALENTS AT BEGINNING	61	—
CASH AND CASH EQUIVALENTS AT END	71,516	61

(1) EXCLUDES ASSETS ACQUIRED UNDER CAPITAL LEASES.

OPERATING ACTIVITIES

Cash flow from operations was greater than last year by \$23.8 million or 13.9%, primarily due to the increase in operating income before amortization.

Changes in non-cash operating items amounted to a cash inflow of \$1.1 million in fiscal 2006, compared to a cash inflow of \$23.7 million in fiscal 2005. The decrease in cash inflow from non-cash operating items is mainly related to an increase in accounts payable and accrued liabilities of \$1.7 million compared to an increase of \$15.7 million the year before as a result of the capital expenditures program completed late in fiscal 2005. Increases in accounts receivable and prepaid expenses have also contributed to the lower cash inflow in fiscal 2006 compared to fiscal 2005. On a per share basis, cash flow from operations increased from \$4.28 in fiscal 2005 to \$4.87 in fiscal 2006, mainly as a result of improved operating income before amortization.

INVESTING ACTIVITIES

ACQUISITION OF CABOVISÃO – TELEVISÃO POR CABO, S.A.

On June 2, 2006, the Corporation entered into an agreement with Cable Satisfaction International Inc. (“CSII”), Catalyst Fund Limited Partnership I and Cabovisão, to purchase, for a total consideration of €465.7 million, all the shares of the second largest telecommunications company in Portugal, an indirect wholly-owned subsidiary of CSII. The price includes the purchase of senior debt and reimbursement of certain other Cabovisão liabilities. The acquisition was completed on August 1, 2006. The final purchase price will be determined following completion of a post-closing working capital adjustment. The Corporation is assuming a €20 million working capital deficiency of Cabovisão. The acquisition was accounted for using the purchase method. The results of Cabovisão have been consolidated as of the acquisition date.

The preliminary allocation of the purchase price of the acquisition is as follows:

(amounts are in thousands of dollars)		\$
CONSIDERATION		
PAID		
ESTIMATED SHARE PURCHASE PRICE		304,188
SECURED LENDERS DEBT AND CERTAIN SPECIFIED CABOVISÃO LIABILITIES		274,761
ACQUISITION COSTS		4,193
		583,142
AMOUNTS OUTSTANDING		
PRELIMINARY WORKING CAPITAL ADJUSTMENT		2,432
		585,574
NET ASSETS ACQUIRED		
CASH AND CASH EQUIVALENTS		5,711
RESTRICTED CASH		489
ACCOUNTS RECEIVABLE		16,570
PREPAID EXPENSES		1,324
FIXED ASSETS		287,652
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES ASSUMED		(65,282)
OTHER SPECIFIED CABOVISÃO LIABILITIES ASSUMED		(91,914)
		154,550
EXCESS OF CONSIDERATION OVER NET ASSETS ACQUIRED		431,024
PRELIMINARY ALLOCATION OF EXCESS OF CONSIDERATION OVER NET ASSETS ACQUIRED		
PRELIMINARY GOODWILL		431,024

In order to finance the cash component of the transaction, the Term Facility and the operating line of credit of the Corporation were restructured by an amended and restated credit agreement (see note 10 a) of the consolidated financial statements of the Corporation on page 52).

Management is currently carrying out a more specific analysis and changes will be made to the allocation of the excess of consideration over net assets acquired as the information becomes available. For example, since the measurement of the fair value of fixed assets had not yet been completed at the time of the preliminary allocation, fixed assets have been presented at cost. The measurement of indefinite and finite-lived intangible assets is also under way. Furthermore, in accordance with CIRC, accumulated tax losses cannot be deducted if the ownership of at least 50% of the social capital changes from the moment when the tax losses were generated, unless a request is filed before such change in the ownership takes place subject to approval by the Portuguese tax authorities. To this effect, a request for preservation of tax

losses was filed by Cabovisão on July 28, 2006. These losses have not been included in the preliminary purchase price allocation. Finally, the Corporation did not complete the assessment of possible costs related to the restructuring and integration of the activities of Cabovisão potentially giving rise to the recognition of a liability in the allocation of the purchase price. As a result, the actual amounts allocated to the identifiable assets acquired and liabilities assumed and the related operating results will vary according to the amounts initially recorded, and such differences could be significant.

CAPITAL EXPENDITURES

Capital expenditures, segmented according to the National Cable Television Association (NCTA) standard reporting categories, are as follows:

YEARS ENDED AUGUST 31, (in thousands of dollars)	2007 GUIDELINES ⁽¹⁾ \$	2006 \$	2005 \$
CUSTOMER PREMISE EQUIPMENT ⁽²⁾	89,800	59,441	44,526
SCALABLE INFRASTRUCTURE ⁽³⁾	38,200	25,298	19,363
LINE EXTENSIONS	21,600	11,205	10,416
UPGRADE/REBUILD	43,500	39,709	34,096
SUPPORT CAPITAL	17,900	8,186	3,888
TOTAL CAPITAL EXPENDITURES⁽⁴⁾	211,000	143,839	112,289

(1) SEE "FISCAL 2007 FINANCIAL GUIDELINES" SECTION FOR FURTHER DISCUSSION ON PAGE 35.

(2) INCLUDES MAINLY NEW AND REPLACEMENT DROPS AS WELL AS HOME TERMINAL DEVICES.

(3) INCLUDES HEAD-END EQUIPMENT AND EXPENDITURES RELATED TO TELEPHONY.

(4) INCLUDES CAPITAL LEASES THAT ARE EXCLUDED IN THE STATEMENTS OF CASH FLOW.

In fiscal 2006, the variances related to capital expenditures are mainly attributable to the following factors:

- The increase in customer premise equipment results primarily from a rise in the number of digital terminals rented to customers, a greater ratio of digital terminals per digital home, and the increase in the number of Digital Telephony and HSI customers.
- The growth in scalable infrastructure is mainly attributable to the support of the Digital Telephony roll-out.
- Expenditures associated with the network upgrade and rebuild program rose due to the acceleration of the program to expand the bandwidth to 750 MHz and 550 MHz for the Ontario and Québec networks, respectively, and to improve network reliability. An increase in the number of homes passed with access to the two-way service was also a factor and the percentage of customers with access to the two-way service rose from 89% as at August 31, 2005 to 93% as at August 31, 2006.
- The Portuguese operations capital expenditures amounted to \$4.2 million for the month of August and fiscal 2006.

Overall, capital expenditures for fiscal 2007 should reach \$211 million, an increase of \$67 million compared to fiscal 2006.

The increase in capital expenditures will stand mainly from the full-year of operations of Cabovisão, which should require between \$45 million to \$50 million, including \$4.4 million for the expected launch of Digital Television. The rise in capital expenditures for the Canadian operations will stand from a \$8.2 million increase in customer premise equipment to serve RGU growth, a \$7.4 million related to Digital Telephony roll-out and network rebuild and, from a \$6 million increase in support capital mainly for improvements in facilities and information systems.

In the coming years, capital expenditures and subsidies related to cable modems and digital terminals are expected to decrease as unit prices continue to decline and as such devices are increasingly integrated in consumer electronics products such as PCs, television sets and DVDs.

On the network side, numerous technology advancements will also help reduce capital expenditures in general. Improvements in compression and multiplexing techniques will continue to occur, as they did significantly in the past few years, and will allow for more and more video signals to be transmitted within a given bandwidth without signal degradation. A good part of the increased bandwidth needs, generated by growth in narrowcast digital services such as Internet and VOD, will be accommodated through further cost efficient node splitting. Future migration to more advanced DOCSIS standards will allow for the use of more robust modulation techniques in the return path as well as substantially higher transmission speeds. Most importantly, the gradual migration of cable systems to all-digital networks will allow operators to recuperate the bandwidth currently used for analog distribution and use it for digital signal distribution, including HD television signals. This migration to all-digital systems will take some time to complete and capacity upgrades will require 3 to 4 years. As a result, capacity upgrades will consume relatively less capital than it has been the case in the past.

INCREASE IN DEFERRED CHARGES

Increase in deferred charges rose to \$20.6 million in fiscal 2006 compared to \$13.4 million in fiscal 2005. The breakdown of the increase in deferred charges is presented in the table below.

YEARS ENDED AUGUST 31, (in thousands of dollars)	2007 GUIDELINES ⁽¹⁾ \$	2006 \$	2005 \$
EQUIPMENT SUBSIDIES	500	273	1,293
RECONNECT COSTS	17,000	19,954	11,468
NEW SERVICE LAUNCH COSTS AND OTHERS	300	380	621
	17,800	20,607	13,382

(1) SEE THE "FISCAL 2007 FINANCIAL GUIDELINES" SECTION ON PAGE 35 FOR FURTHER DISCUSSION.

Equipment subsidies mainly relate to subsidies on sales of digital terminals. During fiscal 2006, a significant reduction in the increase in deferred charges was recorded, in light of the digital terminal rental program offered to customers since fiscal 2005. Reconnect costs increase due to the higher-than-anticipated demand for HSI, Digital Telephony and Digital Television services. New services launch costs consist mainly of marketing costs associated with the launch of Digital Telephony in new markets.

FREE CASH FLOW AND FINANCING ACTIVITIES

Free cash flow of \$30.3 million was generated during fiscal 2006, a decrease of \$15 million over fiscal 2005 as a result of increase in capital expenditures and deferred charges, partly offset by an increase in cash flow from operations. Furthermore, deferred financing costs amounting to \$10.1 million are related to the amendment and restatement of a \$900 million 5-year Term Facility with a group of financial institutions.

In fiscal 2006, the increase in cash and cash equivalents of \$71.5 million and to the fees related to the new Term Facility of \$900 million, the level of Indebtedness grew by \$631.7 million due to the acquisition of Cabovis o, completed in the fourth quarter, partly offset by generated free cash flow of \$30.3 million. For the prior year, Indebtedness declined by \$67.6 million essentially due to generated free cash flow of \$45.3 million and an increase in non-cash operating items of \$23.7 million.

Dividends of \$0.16 per share totaling \$6.4 million were paid during fiscal year 2006 compared to dividends of \$0.10 per share totaling \$4 million the year before.

FINANCIAL POSITION

As at August 31, 2006, the Corporation's balance sheet includes the assets and liabilities of the recently acquired subsidiary, Cabovis o. Please refer to section "Cash Flow Analysis" for details.

Fixed assets for the Canadian operations rose by \$43.5 million, mainly attributable to increased capital expenditures. Deferred charges increased by \$9.1 million mostly due to fees related to the new financing and RGU growth. Indebtedness increased by \$624.5 million due to factors previously discussed in the “Cash Flow Analysis” section. At August 31, 2006 and 2005, the Corporation performed impairment tests of the value of the customer base and concluded that no impairment existed.

CAPITAL RESOURCES AND LIQUIDITY

CAPITAL STRUCTURE

The table below summarizes debt-related financial ratios over the last two fiscal years and the fiscal 2007 guidelines.

YEARS ENDED AUGUST 31,	2007 GUIDELINES ⁽¹⁾	2006	2005
AVERAGE COST OF INDEBTEDNESS	6.4%	6.3%	7.5%
FIXED RATE INDEBTEDNESS	43%	53%	100%
AVERAGE TERM: LONG-TERM DEBT	3.1 years	3.7 years	3.3 years
NET INDEBTEDNESS ⁽²⁾ /SHAREHOLDERS' EQUITY	1.7	1.7	1.0
NET INDEBTEDNESS ⁽²⁾ /OPERATING INCOME BEFORE AMORTIZATION	4.0	4.9 ⁽³⁾	3.0
OPERATING INCOME BEFORE AMORTIZATION/ FINANCIAL EXPENSE	3.9	4.4 ⁽³⁾	4.1

(1) SEE THE “FISCAL 2007 FINANCIAL GUIDELINES” SECTION ON PAGE 35 FOR FURTHER DISCUSSION.

(2) INDEBTEDNESS NET OF CASH AND CASH EQUIVALENTS.

(3) CABOVISÃO'S 2006 FINANCIAL RESULTS ARE FOR A ONE-MONTH OPERATION.

The average cost of Indebtedness has decreased due to the lower fixed-rate portion of Indebtedness, whose average interest rate is higher than that of the variable-rate Term Facility. The average tenure of long-term debt will decline assuming no debt refinancing for fiscal 2007.

Financial leverage ratio should improve in fiscal 2007 as management expects a growth in operating income before amortization and a reduction in Indebtedness net of cash and cash equivalents. Interest coverage ratio will decline as a result of the costs of financing the Portuguese operations. See “Fiscal 2007 Financial Guidelines” on page 35 for further details.

OUTSTANDING SHARE DATA

A description of Cogeco Cable's share data as at September 30, 2006 is presented in the table below. Additional details are provided in Note 11 on page 54.

	NUMBER OF SHARES/ OPTIONS	AMOUNT (in thousands of dollars)
COMMON SHARES		
MULTIPLE VOTING SHARES	15,691,100	98,346
SUBORDINATE VOTING SHARES	24,308,112	532,112
OPTIONS TO PURCHASE SUBORDINATE VOTING SHARES		
OUTSTANDING OPTIONS	715,571	
EXERCISABLE OPTIONS	433,855	

FINANCING

As at August 31, 2006, the Corporation has used \$623.3 million of the Term Facility.

On July 28, 2006, the Term Facility and the operating line of credit of the Corporation were restructured by an amended and restated credit agreement for credit facilities totalling \$900 million. The Term Facility is composed of four tranches: a first tranche, a revolving loan for an amount of \$700 million available in Canadian, U.S. or euro currencies; a second tranche, a swingline of \$25 million available in Canadian or U.S. currencies; a third tranche of \$150 million fully drawn, and a fourth tranche of €17.4 million euros fully drawn. The Term Facility is repayable on July 28, 2011, except for the third tranche of \$150 million which is repayable as follows: \$15 million on July 28, 2008, \$22.5 million on July 28, 2009, \$37.5 million on July 28, 2010 and the balance on July 28, 2011. Earlier repayments can be made without penalty. The Term Facility requires commitment fees, and interest rates are based on bankers' acceptance, LIBOR, EURIBOR, bank prime rate loan or U.S. base rate loan plus stamping fees. The Term Facility is secured by a first fixed and floating charge on the assets of the Corporation and certain of its subsidiaries except for permitted encumbrances, including purchased money obligations, existing funded obligations and charges granted by any subsidiary prior to the date when it becomes a subsidiary subject to a maximum amount. Cogeco Cable continues to satisfy the various conditions stipulated in its financing agreements whilst being on schedule to meet interest and principal repayment obligations. Of all Cogeco Cable's debt instruments, the bank facilities usually set the most restrictive limitations on the Corporation's activities and operations. The most important restrictions cover maintaining certain financial ratios, authorized investments, disposal of assets and distributions to shareholders.

During the next five years, Cogeco Cable's required principal repayments on its long-term debt, excluding those under capital leases, amount to \$1,137 million. In fiscal 2007 Cogeco Cable's \$125 million Second Secured Debentures will be repaid. For that repayment, the Corporation has the flexibility to use the undrawn portion of its existing Term Facility. The \$15 million portion of the third tranche of the Term Facility will have to be repaid in fiscal year 2008. The \$150 million Senior Secured Debentures, the \$22.5 million portion of the third tranche of the Term Facility and the US\$150 million Senior Secured Notes will have to be repaid in fiscal 2009 for a total amount of CDN\$411.2 million (the Senior Secured Notes are converted into CDN\$ using the exchange rate on the cross-currency swap agreements). In addition, the \$37.5 million portion of the third tranche of the Term Facility will have to be repaid in fiscal year 2010. The Term Facility drawn for an amount of \$548.3 million will have to be repaid in fiscal year 2011.

As at August 31, 2006, Cogeco Cable had a working capital deficiency of \$315 million compared to \$121.5 million as at August 31, 2005. The greater deficiency is mainly attributable to the increase in the current portion of long-term debt as the Corporation's \$125 million Second Secured Debentures Series A matures in less than a year and the Cabovisão working capital deficiency of \$93.2 million at the end of fiscal year 2006. Cogeco Cable maintains a working capital deficiency due to a low level of accounts receivable since the majority of the Corporation's customers pay before their services are rendered, unlike accounts payable and accrued liabilities, which are paid after products or services are rendered. In addition, the Corporation generally uses cash and cash equivalents to reduce Indebtedness.

In fiscal 2006, Dominion Bond Rating Service (DBRS) and Standard & Poor's Ratings Services (S&P) downgraded Cogeco Cable's ratings. DBRS downgraded the rating of the Senior Secured Debentures and Notes to BB from BB (high) rating and on the Second Secured Debentures to BB (low) from BB rating based on the higher leverage as a result of the acquisition of Cabovisão and increased business risks involved with operations outside of Cogeco Cable's incumbent territory. S&P downgrade as well the Senior Secured Debentures and Notes to BB+ from BBB- rating and the Second Secured Debentures to BB from BB+. S&P downgraded Cogeco Cable's rating due to the fact that Cabovisão operates in weaker demographic areas that have a higher degree of competition and has a weaker profitability than the Canadian operations. The lack of operational and capital expenditures synergies between the Canadian and Portuguese operations as well as management inexperience are additional factors considered in the decision to downgrade the rating. Based on the Term Facility in place and anticipated free cash flow for fiscal 2007, refinancing can be postponed until fiscal 2009.

FOREIGN EXCHANGE MANAGEMENT

The Corporation has established guidelines whereby currency swap agreements can be used to manage risks associated with fluctuations in exchange rates related to its US-dollar denominated long-term debt. All such agreements are exclusively used for hedging purposes. In order to minimize the risk of counter-party default, Cogeco Cable completes transactions with financial institutions that carry a credit rating equal or superior to its own credit rating.

Cogeco Cable has entered into cross-currency swap agreements to fix the liability for interest and principal payments on its US\$150 million Senior Secured Notes. These agreements have the effect of converting the US interest coupon rate of 6.83% per annum to an average Canadian dollar fixed interest rate of 7.254% per annum. The exchange rate applicable to the principal portion of the debt has been fixed at CDN\$1.5910. Amounts due under the US\$150 million Senior Secured Notes Series A declined by CDN\$12.3 million at the end of fiscal 2006 compared to August 31, 2005 due to the strengthening of the Canadian dollar. Since the Senior Secured Notes Series A are fully hedged, the decline is fully offset by an increase in deferred credit described in Note 10 e) on page 53. This \$72.9 million deferred credit represents the difference between the year-end exchange rate and the exchange rate on the cross-currency swap agreements, which determines the liability for interest and principal payments on the Senior Secured Notes Series A.

COMMITMENTS AND GUARANTEES

In the normal course of business, Cogeco Cable enters into agreements containing features that meet the criteria for a guarantee. In connection with the acquisition of business or sale of assets, in addition to possible indemnification relating to failure to perform covenants and breach of representations and warranties, the Corporation has agreed to indemnify the seller or the purchaser against claims related to events which occurred prior to the date of acquisition or sale. The term and amount of such indemnification will sometimes be limited by the agreement. The nature of these indemnification agreements prevents the Corporation from estimating the maximum potential liability required to be paid to guaranteed parties. In management's opinion, the likelihood that a significant liability will be incurred under these obligations is low. The Corporation has purchased directors' and officers' liability insurance with a deductible per loss. As at August 31, 2006 and 2005 no liability associated with these indemnifications has been recorded.

Under the terms of the Term Facility, the Senior Secured Notes and the Second Secured Debentures Series A, Cogeco Cable has agreed to indemnify the other parties against changes in regulation relative to withholding taxes and costs incurred by the lenders due to changes in laws. These indemnifications extend for the term of the related financings and do not provide any limit on the maximum potential liability. The nature of the indemnification agreement prevents the Corporation from estimating the maximum potential liability it could be required to pay. As at August 31, 2006 and 2005, no liability associated with these indemnifications has been recorded.

Supplementary information on guarantees is presented in Note 17 on page 62.

Cogeco Cable's contractual obligations as at August 31, 2006 are shown in the table below:

YEARS ENDED AUGUST 31, (in thousands of dollars)	2007 \$	2008 \$	2009 \$	2010 \$	2011 \$	THEREAFTER \$	TOTAL \$
LONG-TERM DEBT ⁽¹⁾	125,000	15,000	411,150	37,500	548,318	175,000	1,311,968
CAPITAL LEASE OBLIGATIONS ⁽²⁾	2,158	1,786	1,190	450	—	—	5,584
OPERATING LEASES AND OTHERS	17,978	16,873	15,296	13,929	10,590	11,276	85,942
OTHER LONG-TERM OBLIGATIONS ⁽³⁾							230,252
TOTAL CONTRACTUAL OBLIGATIONS⁽⁴⁾	145,136	33,659	427,636	51,879	558,908	186,276	1,633,746

(1) INCLUDES PRINCIPAL REPAYMENTS AND THE IMPACT OF CROSS-CURRENCY SWAP AGREEMENTS BUT EXCLUDES CAPITAL LEASES.

(2) INCLUDES PRINCIPAL REPAYMENTS AND FINANCIAL EXPENSE.

(3) OTHER LONG-TERM LIABILITIES REFLECTED ON COGECO CABLE'S BALANCE SHEET INCLUDE DEFERRED AND PREPAID INCOME, PENSION PLAN LIABILITIES AND ACCRUED EMPLOYEE BENEFITS AND FUTURE INCOME TAX LIABILITIES. THE NATURE OF THOSE OBLIGATIONS PREVENTS THE CORPORATION FROM ESTIMATING AN ANNUAL BREAKDOWN.

(4) ANNUAL BREAKDOWN EXCLUDES OTHER LONG-TERM OBLIGATIONS.

NON-GAAP FINANCIAL MEASURES

This section describes Non-GAAP financial measures used by Cogeco Cable throughout this MD&A. It also provides reconciliations between these Non-GAAP measures and the most comparable GAAP financial measures. These financial measures do not have standard definitions prescribed by Canadian GAAP and may not be comparable with similar measures presented by other companies. These measures include “cash flow from operations” and “free cash flow”.

CASH FLOW FROM OPERATIONS

Cash flow from operations is used by Cogeco Cable’s management and investors to evaluate cash flow generated by operating activities excluding the impact of changes in non-cash operating items. This allows the Corporation to isolate the cash flow from operating activities from the impact of cash management decisions. Cash flow from operations is subsequently used in calculating the Non-GAAP measure, “free cash flow”. Cash flow from operations is calculated as follows:

YEARS ENDED AUGUST 31, (in thousands of dollars)	2006 \$	2005 \$
CASH FLOW FROM OPERATING ACTIVITIES	195,790	194,595
CHANGES IN NON-CASH OPERATING ITEMS	(1,051)	(23,657)
CASH FLOW FROM OPERATIONS	194,739	170,938

FREE CASH FLOW

Free cash flow is used by Cogeco Cable’s management and investors to measure the Corporation’s ability to repay debt, distribute capital to its shareholders and finance its growth. Free cash flow is calculated as follows:

YEARS ENDED AUGUST 31, (in thousands of dollars)	2006 \$	2005 \$
CASH FLOW FROM OPERATIONS	194,739	170,938
ACQUISITION OF FIXED ASSETS	(140,941)	(110,365)
INCREASE IN DEFERRED CHARGES	(20,607)	(13,382)
ASSETS ACQUIRED UNDER CAPITAL LEASES – AS PER NOTE 15 B) ON PAGE 59	(2,898)	(1,924)
FREE CASH FLOW	30,293	45,267

THREE-YEAR ANNUAL FINANCIAL HIGHLIGHTS AND QUARTERLY FINANCIAL HIGHLIGHTS

THREE-YEAR FINANCIAL HIGHLIGHTS

YEARS ENDED AUGUST 31, (in thousands of dollars, except per share data)	2006 \$	2005 \$	2004 \$
REVENUE	620,001	554,404	526,480
OPERATING INCOME BEFORE AMORTIZATION	252,978	227,521	203,246
NET INCOME (LOSS)	65,556	28,721	(32,194)
PER SHARE DATA			
NET INCOME (LOSS) PER SHARE			
BASIC ⁽¹⁾	1.64	0.72	(0.81)
DILUTED ⁽¹⁾	1.63	0.72	(0.81)
DIVIDEND ⁽¹⁾	0.16	0.10	0.00
FREE CASH FLOW	30,293	45,267	43,534
TOTAL ASSETS	2,602,603	1,755,796	1,761,379
LONG-TERM LIABILITIES	1,420,378	914,315	956,956

(1) PER MULTIPLE VOTING SHARE AND PER SUBORDINATE VOTING SHARE.

QUARTERLY FINANCIAL HIGHLIGHTS

Cogeco Cable's operating results are not generally subject to material seasonal fluctuations. However, the loss in basic service customers is usually greater, and the addition of HSI service customers is generally lower in the third quarter, mainly because students leave their campus at the end of the school year. Cogeco Cable offers its services in several university and college towns such as Kingston, Windsor, St. Catharines, Hamilton, Peterborough, Trois-Rivières and Rimouski. Furthermore, the fourth quarter's operating margin is usually higher as no management fees are paid to COGECO Inc. Under the Management Agreement, Cogeco Cable pays a fee equal to 2% of its total revenue subject to a maximum amount. Since the maximum amount was reached in the third quarter of fiscal 2006 and 2005, Cogeco Cable has paid no management fees in the fourth quarters.

Cogeco Cable's revenue has consistently grown over the last eight quarters mainly as a result of improved penetration of HSI, Digital Telephony, basic cable and Digital Television services, rate increases and the acquisition of Cabovisão. Furthermore, Cogeco Cable has focused on improving its quarterly operating income before amortization and cash flow from operations compared to prior year. Management believes that this kind of consistent financial performance quarter over quarter leads to strong shareholder value creation.

QUARTERS ENDED ⁽¹⁾ (in thousands of dollars, except percentage and per share data)	NOV. 30	FEB. 28	FISCAL 2006		NOV. 30	FEB. 28	FISCAL 2005	
			MAY 31	AUG. 31			MAY 31	AUG. 31
	\$	\$	\$	\$	\$	\$	\$	\$
REVENUE	143,413	147,757	153,956	174,875	135,766	138,389	140,071	140,178
OPERATING COSTS	83,243	85,232	88,145	102,011	79,857	80,328	79,061	79,458
MANAGEMENT FEES - COGECO INC.	2,868	2,957	2,567	—	2,715	2,764	2,700	—
OPERATING INCOME								
BEFORE AMORTIZATION	57,302	59,568	63,244	72,864	53,194	55,297	58,310	60,720
OPERATING MARGIN	40.0%	40.3%	41.1%	41.7%	39.2%	40.0%	41.6%	43.3%
INCOME BEFORE INCOME TAXES	15,443	17,136	20,562	21,689	7,056	9,469	12,960	17,256
NET INCOME	8,998	10,200	12,371	33,987	3,827	5,613	8,245	11,036
CASH FLOW FROM OPERATIONS	43,389	44,940	49,696	56,714	39,192	41,675	43,562	46,509
NET INCOME PER SHARE								
BASIC	0.23	0.26	0.31	0.85	0.10	0.14	0.21	0.28
DILUTED	0.22	0.25	0.31	0.85	0.10	0.14	0.21	0.27

(1) THE ADDITION OF QUARTERLY INFORMATION MAY NOT CORRESPOND TO THE ANNUAL TOTAL GIVEN ROUNDING.

2006 VS 2005 FOURTH QUARTER OPERATING RESULTS

Consolidated revenue rose by \$34.7 million, or 24.8%, of which \$17.8 million or 12.7% relates to Canadian operations and is mainly attributable to improved HSI, Digital Telephony, basic cable and Digital Television service penetration and implemented rate increases. See the "Revenue" section on page 23 for further discussion on rate increases. The Portuguese subsidiary's one-month revenue amounted to \$16.9 million in the quarter.

Operating costs increased by \$22.6 million, or 28.4%, of which \$10.7 million, or 13.4%, are for the Canadian operations. The rise in customer care and technical operations expenses are largely attributable to the RGU growth of more than 15% in fiscal 2006. On the other hand, costs of sales for equipment sold and IP transport costs for HSI services have declined. For the fourth quarter, Cabovisão's one-month operating costs amounted to \$11.9 million.

The consolidated operating income before amortization for the fourth quarter 2006 increased by \$12.1 million compared to fiscal 2005. Cabovisão's operating income before amortization for the fourth quarter 2006 amounted to \$5 million.

For the fourth quarter 2006, operating income before amortization for the Canadian operations rose by 11.8%, compared to the same period last year as the increase in revenue outpaced the rise in operating costs. Cogeco Cable's operating margin for the Canadian operations decreased slightly from 43.3% to 43% in the fourth quarter of fiscal 2006, as a result of the roll-out of the Digital Telephony service. The Portuguese operations generated an operating margin of 29.5% in August 2006. As a result, Cogeco Cable's fourth quarter operating margin declined from 43.3% in fiscal 2005 to 41.7% in fiscal 2006.

During the fourth quarter 2006, cash flow from operations reached \$56.7 million, 21.9% higher than the comparable period last year, primarily due to the increase in operating income before amortization. Changes in non-cash operating items generated greater cash inflows than the same period last year, mainly as a result of an increase in accounts payable and accrued liabilities resulting from an increase in capital expenditures.

Investing activities in the fourth quarter 2006 include the acquisition of Cabovisão (Please refer to section “Cash Flow Analysis” on page 25 for details). Other investing activities related to capital expenditures and deferred charges, including assets acquired under capital leases, rose from \$46.3 million to \$53.3 million, mainly due to increased upgrade and reconstruction activities and purchases of customer premise equipment. Free cash flow of \$3.4 million was generated, an increase of \$3.2 million compared to the same period last year, as a result of a \$10.2 million increase in cash flow from operations, offset by a \$7 million increase in capital expenditures and deferred charges.

Indebtedness increased by \$607.2 million in the fourth quarter of 2006 due to the Cabovisão acquisition, the increase in cash and cash equivalents of \$71.5 million and the fees related to the new Term Facility of \$900 million are partly offset by an increase in non-cash operating items of \$50.5 million. For the same period last year, Indebtedness declined by \$45.1 million mainly due to non-cash operating items of \$46.1 million. In addition, a dividend of \$0.04 per share for subordinate and multiple voting shares, totalling \$1.6 million, was paid during the fourth quarter of fiscal 2006 and 2005.

FISCAL 2007 FINANCIAL GUIDELINES

The preliminary financial guidelines for fiscal 2007 excluded Cabovisão. In its revised projections, management has maintained its preliminary financial guidelines for the Canadian operations and included the Cabovisão acquisition guidance.

CANADIAN OPERATIONS

The revenue increase of approximately 10% to 12% should result mainly from expanded penetration of HSI and Digital Telephony services as well as the full-year impact of the 2006 RGU additions. In addition, rate increases of up to \$3 per customer in Québec and Ontario, thus averaging \$2 per basic service customer as well as improved penetration of Digital Television services and sustained deployment of the Digital Telephony will also contribute to the revenue increase. Cogeco Cable plans to expand its basic service clientele through effective marketing, competitive product offering and superior customer service. As the penetration of HSI and Digital Television services increases, the demand for these products will likely slow down but should be offset by increased demand for the Digital Telephony service. As a result, the Canadian operations' operating income before amortization should increase by 6% to 8% to reach \$264 million to \$267 million, for an operating margin of about 40%. Amortization of capital assets and deferred charges are expected to increase by \$11 million, as a result of capital expenditures and deferred charges that will be incurred for the RGU growth of fiscal 2007 and the full year impact of the 2006 RGU growth. Compared to fiscal 2006, capital expenditures and deferred charges for fiscal 2007 will increase, primarily as a result of the full-year of operations of Cabovisão, which should require between \$45 million to \$50 million, including \$4.4 million for the expected launch of Digital Television and to increases in capital expenditures for the Canadian operations mainly from a \$8.2 million increase in customer premise equipment to serve RGU growth, a \$7.4 million related to Digital Telephony roll-out and network rebuild and, from a \$6 million increase in support capital mainly for improvements in facilities and information systems.

PORTUGUESE OPERATIONS

RGUs should increase by approximately 75,000 essentially equally divided between basic cable, HSI and Telephony customers. As a result, revenue should reach \$215 million to \$220 million, using a conversion rate of \$1.40 per euro, while operating income before amortization should amount to between \$69 million to \$71 million for an operating margin of approximately 33%. Capital expenditures to support the projected revenue growth including \$4.4 million for the expected launch of the Digital Television service should reach \$45 million to \$50 million or approximately 22% of projected revenue. Amortization of capital assets and deferred charges should amount to \$54 million.

CONSOLIDATED OUTLOOK

The revenue increase of approximately 41% to 42% should result primarily from the full-year impact of Cabovisão's operations, from a growth of between 202,000 to 222,000 RGUs. Cogeco Cable expects to achieve an operating income before amortization of approximately \$335 million to \$338 million, generating an operating margin of about 38%.

Capital expenditures and deferred charges are expected to be at around \$225 million to \$230 million due to the inclusion of Cabovisão's operations and to RGU growth. Amortization should amount to \$182 million. Financial expense should increase by \$30 million to reach \$85 million as a result of the additional Indebtedness to finance the Cabovisão acquisition.

Management expects that cash flows generated by operations will finance capital expenditures and deferred charges. The Corporation expects to generate free cash flow in the order of \$20 million to \$25 million due to the increase in operating income before amortization. Free cash flow that is generated should be used primarily to reduce Indebtedness, thus improving the Corporation's leverage ratios. Net income of approximately \$45 million should be achieved as a result of growth in operating income before amortization exceeding the increase in fixed charges.

ADDITIONAL INFORMATION

This MD&A was prepared on October 23, 2006. Additional information relating to the Corporation, including its Annual Information Form, is available on the SEDAR Web site at www.sedar.com.

MANAGEMENT'S RESPONSIBILITY

RELATED TO THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements of Cogeco Cable Inc. and the financial information contained in this annual report are the responsibility of management. The financial statements include amounts determined by management based on estimates which in their opinion are reasonable and fair. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and have been approved by the Board of Directors. Operating and financial information used elsewhere in the annual report is consistent with that in the financial statements.

In fulfilling its responsibilities, management of Cogeco Cable Inc. and its subsidiaries have developed and continue to improve administrative and accounting systems in order to provide reasonable assurance that assets are safeguarded against loss or unauthorized use and maintains internal accounting controls to ensure that financial records are reliable for preparing the financial statements. The Board of Directors carries out its responsibility for the financial statements in this annual report principally through its Audit Committee, which reviews the annual consolidated financial statements of the Corporation and recommends their approval to the Board of Directors. The Committee periodically meets with management and the external auditors to discuss the results of the external and internal examinations and matters having an impact on financial information.

The external auditors appointed by the shareholders, Deloitte & Touche LLP, Chartered Accountants, are responsible for making an independent examination of the consolidated financial statements in accordance with Canadian generally accepted auditing standards and to issue an opinion on the statements. The external auditors have free access to the Audit Committee, with or without the presence of management. Their report follows.



LOUIS AUDET
PRESIDENT AND CHIEF EXECUTIVE OFFICER



PIERRE GAGNÉ
VICE-PRESIDENT, FINANCE AND CHIEF FINANCIAL OFFICER

AUDITORS' REPORT

TO THE SHAREHOLDERS OF COGECO CABLE INC.

We have audited the consolidated balance sheets of Cogeco Cable Inc. as at August 31, 2006 and 2005 and the consolidated statements of income, retained earnings and cash flow for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at August 31, 2006 and 2005 and the results of its operations and its cash flow for the years then ended in accordance with Canadian generally accepted accounting principles.



CHARTERED ACCOUNTANTS
MONTRÉAL, OCTOBER 12, 2006

CONSOLIDATED STATEMENTS OF INCOME

YEARS ENDED AUGUST 31, (in thousands of dollars, except per share data)	2006 \$	2005 \$
REVENUE		
SERVICE	617,806	550,711
EQUIPMENT	2,195	3,693
	620,001	554,404
OPERATING COSTS (NOTE 1 L))	358,631	318,704
MANAGEMENT FEES - COGECO INC. (NOTE 18)	8,392	8,179
OPERATING INCOME BEFORE AMORTIZATION	252,978	227,521
AMORTIZATION (NOTE 3)	120,782	125,088
OPERATING INCOME	132,196	102,433
FINANCIAL EXPENSE (NOTE 10)	57,366	55,692
INCOME BEFORE INCOME TAXES	74,830	46,741
INCOME TAXES (NOTE 4)	9,274	18,020
NET INCOME	65,556	28,721
EARNINGS PER SHARE (NOTE 13)		
BASIC	1.64	0.72
DILUTED	1.63	0.72

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

YEARS ENDED AUGUST 31, (in thousands of dollars)	2006 \$	2005 \$
BALANCE AT BEGINNING	58,604	33,880
NET INCOME	65,556	28,721
DIVIDENDS ON MULTIPLE VOTING SHARES	(2,512)	(1,569)
DIVIDENDS ON SUBORDINATE VOTING SHARES	(3,888)	(2,428)
BALANCE AT END	117,760	58,604

CONSOLIDATED BALANCE SHEETS

AS AT AUGUST 31, (in thousands of dollars)	2006 \$	2005 \$
ASSETS		
CURRENT		
CASH AND CASH EQUIVALENTS	71,516	61
RESTRICTED CASH	569	—
ACCOUNTS RECEIVABLE	43,728	26,485
PREPAID EXPENSES	6,265	3,946
	122,078	30,492
FIXED ASSETS (NOTE 6)		
DEFERRED CHARGES (NOTE 7)	1,021,538	697,526
CUSTOMER BASE (NOTE 8)	47,327	38,226
PRELIMINARY GOODWILL (NOTE 8)	989,552	989,552
	422,108	—
	2,602,603	1,755,796
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
CURRENT		
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	283,087	125,090
INCOME TAX LIABILITIES	444	678
DEFERRED AND PREPAID INCOME	26,652	24,907
CURRENT PORTION OF LONG-TERM DEBT (NOTE 10)	126,851	1,322
	437,034	151,997
LONG-TERM DEBT (NOTE 10)		
DEFERRED AND PREPAID INCOME	1,190,126	691,159
PENSION PLANS LIABILITIES AND ACCRUED EMPLOYEES BENEFITS	10,525	10,522
FUTURE INCOME TAX LIABILITIES (NOTE 4)	2,091	1,903
	217,636	210,731
	1,857,412	1,066,312
COMMITMENTS AND CONTINGENCIES (NOTE 17)		
SHAREHOLDERS' EQUITY		
CAPITAL STOCK (NOTE 11)	630,458	630,220
CONTRIBUTED SURPLUS - STOCK-BASED COMPENSATION	1,425	660
RETAINED EARNINGS	117,760	58,604
FOREIGN CURRENCY TRANSLATION ADJUSTMENT (NOTE 12)	(4,452)	—
	745,191	689,484
	2,602,603	1,755,796

ON BEHALF OF THE BOARD OF DIRECTORS,


JAN PEETERS
DIRECTOR


HARRY A. KING
DIRECTOR

CONSOLIDATED STATEMENTS OF CASH FLOW

YEARS ENDED AUGUST 31, (in thousands of dollars)	2006 \$	2005 \$
CASH FLOW FROM OPERATING ACTIVITIES		
NET INCOME	65,556	28,721
ITEMS NOT AFFECTING CASH AND CASH EQUIVALENTS		
AMORTIZATION (NOTE 3)	120,782	125,088
AMORTIZATION OF DEFERRED FINANCING COSTS	1,140	958
FUTURE INCOME TAXES (NOTE 4)	5,200	15,208
STOCK-BASED COMPENSATION	636	681
LOSS ON DISPOSAL OF FIXED ASSETS	1,129	82
OTHER	296	200
	194,739	170,938
CHANGES IN NON-CASH OPERATING ITEMS (NOTE 15 A))	1,051	23,657
	195,790	194,595
CASH FLOW FROM INVESTING ACTIVITIES		
ACQUISITION OF FIXED ASSETS (NOTE 15 B))	(140,941)	(110,365)
INCREASE IN DEFERRED CHARGES	(20,607)	(13,382)
BUSINESS ACQUISITION, NET OF CASH AND CASH EQUIVALENTS ACQUIRED (NOTE 2)	(577,431)	—
INCREASE IN RESTRICTED CASH	(91)	—
OTHER	48	44
	(739,022)	(123,703)
CASH FLOW FROM FINANCING ACTIVITIES		
DECREASE IN BANK INDEBTEDNESS	—	(5,410)
INCREASE IN LONG-TERM DEBT	633,402	—
REPAYMENT OF LONG-TERM DEBT	(1,720)	(62,166)
INCREASE IN DEFERRED FINANCING COSTS	(10,110)	—
ISSUE OF SUBORDINATE VOTING SHARES	228	742
DIVIDENDS ON MULTIPLE VOTING SHARES	(2,512)	(1,569)
DIVIDENDS ON SUBORDINATE VOTING SHARES	(3,888)	(2,428)
	615,400	(70,831)
NET CHANGE IN CASH AND CASH EQUIVALENTS	72,168	61
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		
DENOMINATED IN FOREIGN CURRENCIES	(713)	—
CASH AND CASH EQUIVALENTS AT BEGINNING	61	—
CASH AND CASH EQUIVALENTS AT END	71,516	61

SEE SUPPLEMENTAL CASH FLOW INFORMATION IN NOTE 15.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended August 31, 2006 and 2005

1. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements are prepared in conformity with Canadian generally accepted accounting principles ("GAAP").

A) NATURE OF OPERATIONS

Cogeco Cable Inc. (the "Corporation") is a Canadian public company whose shares are listed on the Toronto Stock Exchange. The Corporation's core business is providing cable television, High Speed Internet and Telephony services in Canada and in Portugal (note 2).

B) PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Corporation and its subsidiaries. Business acquisitions are accounted for under the purchase method and operating results are included in the consolidated financial statements as of the date of the acquisition of control. Other investments are recorded at cost.

C) RECENT ACCOUNTING PRONOUNCEMENTS AND CHANGES IN ACCOUNTING POLICIES

ADOPTED DURING FISCAL YEAR 2006

i) Non-Monetary Transactions

In June 2005, the Canadian Institute of Chartered Accountants ("CICA") issued Handbook section 3831, *Non-Monetary Transactions*, which revised and replaced the current standards on non-monetary transactions. Under the new section, the criterion for measuring non-monetary transactions at fair value is modified to focus on the assessment of commercial substance instead of the culmination of the earnings process. A non-monetary transaction has commercial substance when the entity's future cash flows are expected to change significantly as a result of the transaction. These standards are effective for non-monetary transactions initiated in periods beginning on or after January 1, 2006. During fiscal year 2006, the Corporation adopted these new standards and concluded that they had no significant impact on these consolidated financial statements.

ADOPTED DURING FISCAL YEAR 2005

ii) Asset Retirement Obligations

In March 2003, the CICA issued Handbook section 3110, *Asset Retirement Obligations*, which provides guidance for the recognition, measurement and disclosure of liabilities for asset retirement obligations and the associated asset retirement costs. The standard applies to legal or contractual obligations associated with the retirement of a tangible long-lived asset that result from acquisition, construction, development or normal operations. The standard requires the Corporation to record the fair value of a liability for an asset retirement obligation in the year in which it is incurred and when a reasonable estimate of fair value can be made. The standard describes the fair value of a liability for an asset retirement obligation as the amount at which that liability could be settled in a current transaction between willing parties, that is, other than in a forced or liquidation transaction. The Corporation is subsequently required to allocate that asset retirement cost to the expense using a systematic and rational method over the asset's useful life. The standard applies to fiscal years beginning on or after January 1, 2004. Certain lease agreements contain provisions requiring the Corporation to restore facilities or remove equipment in the event that the lease agreement is not renewed. However, the Corporation expects to renew most of its lease agreements related to the continued operation of its cable business and consequently, any liabilities related to the removal provisions on non-renewed leases, if any, are considered not significant to these consolidated financial statements.

iii) Variable Interest Entities

In June 2003, the CICA issued Accounting Guideline 15 ("AcG-15"), *Consolidation of Variable Interest Entities*, which defines Variable Interest Entities as entities that have insufficient equity or their equity investors lack one or more specified essential characteristics of a controlling financial interest. The standard provides guidance for determining when an entity is a Variable Interest Entity and which entity, if anyone, should consolidate the Variable Interest Entity. The Guideline applies to all annual and interim periods beginning on or after November 1, 2004. During fiscal year 2005, the Corporation adopted this new accounting guideline and concluded that it has no significant impact on these consolidated financial statements.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

FUTURE ACCOUNTING PRONOUNCEMENTS

iv) Financial Instruments, Hedges and Comprehensive Income

In January 2005, the CICA issued Handbook section 3855, *Financial Instruments – Recognition and Measurement*, Handbook section 3865, *Hedges* and Handbook section 1530, *Comprehensive Income*.

Section 3855 establishes standards for recognition and measurement of financial assets, financial liabilities and non-financial derivatives. The standard specifies when and to which amount a financial instrument is to be recorded on the balance sheet. Financial instruments are to be recorded at fair value in some cases, and at cost in others. The section also provides guidance for disclosure of gains and losses on financial instruments.

Section 3865 includes and replaces the guidance on hedging relationships that was previously contained in AcG-13, mostly those relating to the designation of hedging relationships and its documentation. The new standard specifies how to apply hedge accounting and which information has to be disclosed by the entity.

Section 1530 establishes standards for reporting and display of comprehensive income. Comprehensive income includes net income as well as all changes in equity during a period, from transactions and events from non-owner sources. Comprehensive income and its components should be presented in a financial statement with the same prominence as other financial statements.

These sections are to be applied to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2006. The Corporation is currently evaluating the impact of these new standards.

D) REVENUE RECOGNITION

The Corporation considers revenue to be earned as services are rendered, provided that ultimate collection is reasonably assured. The Corporation earns revenue from several sources. The recognition of revenue from the principal sources is as follows:

- Revenue from cable television and related services, from High Speed Internet services and Telephony services are recognized when services are provided;
- Revenue generated from sales of home terminal devices are recorded as equipment revenue upon activation of services;
- Installation revenue are deferred and amortized over the average life of a customer's subscription, which is four years;
- Promotional offers are accounted as a deduction of revenue when customers are taking advantage of such offer.

Amounts received or invoiced that do not comply with these criteria are accounted for as deferred and prepaid income.

E) FIXED ASSETS

Fixed assets are recorded at cost. During construction of new assets, direct costs plus a portion of overhead costs are capitalized. Financial expense incurred during construction is expensed. Amortization is provided principally on a straight-line method over the estimated useful lives over the following periods:

BUILDINGS	40 to 50 years
CABLE SYSTEMS	4 to 15 years
EQUIPMENT, PROGRAMMING EQUIPMENT, FURNITURE AND FIXTURES	3 to 10 years
HOME TERMINAL DEVICES	3 to 5 years
ROLLING STOCK UNDER CAPITAL LEASES	5 years
OTHER EQUIPMENT	5 to 8 years
LEASEHOLD IMPROVEMENTS	Lease term

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

The Corporation reviews, when a triggering event occurs, the carrying values of its long-lived assets by comparing the carrying amount of the asset or group of assets to the expected future undiscounted cash flows to be generated by the asset or group of assets. An impairment loss is recognized when the carrying amount of an asset or group of assets held for use exceeds the sum of the undiscounted cash flows expected from its use and eventual disposition. The impairment loss is measured as the amount by which the asset carrying amount exceeds its fair value.

F) DEFERRED CHARGES

Deferred charges with anticipated future benefits include new services launch costs, equipment subsidies, reconnect costs and financing costs. New services launch costs and financing costs are amortized using the straight-line method, over a period not exceeding five years. Equipment subsidies and reconnect costs are amortized over the average life of a customer's subscription, which is four years.

G) CUSTOMER BASE

The customer base represents the fair value attributed to the customer base upon acquisition of cable systems. Customer base is considered to have a deemed indefinite life and consequently is not amortized, but tested for impairment annually or more frequently if changes in circumstances indicate a potential impairment.

H) PRELIMINARY GOODWILL

The preliminary goodwill represents the difference between the price paid and the preliminary fair value attributed to tangible and intangible assets upon acquisition of cable systems. Goodwill resulting from the acquisition of businesses is not amortized but tested for impairment annually or more frequently if changes in circumstances indicate a potential impairment.

I) INCOME TAXES

Income taxes are accounted for under the asset and liability method. Under this method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statements carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantially enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Future income tax assets are recognized only to the extent that, in the opinion of management, it is more likely than not that the future income tax asset will be realized.

J) STOCK-BASED COMPENSATION

The Corporation measures stock options granted to employees based on the fair value at the grant date by using the binomial pricing model and a compensation expense is recognized on a straight-line basis over the vesting period, which is four years, with a corresponding increase in the contributed surplus. When the stock options are exercised, capital stock is credited by the sum of the consideration paid and the related portion previously recorded in the contributed surplus.

The performance unit plan of the Corporation is recognized as a compensation expense and as an accrued liability as of the date units are granted to employees, over the vesting period, which is three years. The accrued liability is re-measured at the end of each reporting period by using the average of the shares' trading price as at the closing date of the reporting period and the twelve preceding Fridays.

K) EMPLOYEES FUTURE BENEFITS

The pension costs, recorded in operating costs, related to the defined contribution pension plan and the collective registered retirement saving plan are equivalent to the contributions which the Corporation is required to pay in exchange for services provided by employees.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

Pension costs for defined benefit pension plans are determined using actuarial methods and are funded through contributions determined in accordance with the projected benefit method prorated on service. Pension expense is charged to operating costs and includes:

- The cost of pension benefits provided in exchange for employees' services rendered during the year;
- The amortization of past service costs and amendments over the expected average remaining service life of the active employee group covered by the plans, which is ten years; and
- The interest cost of pension obligations, the expected return on pension fund assets and the amortization of cumulative unrecognized net actuarial gains and losses in excess of 10% of the greater of the benefit obligation or fair value of plan assets over the expected average remaining service life of the active employee group covered by the plans, which is ten years. The Corporation uses the fair value of plan assets to evaluate plan assets for the purpose of calculating the expected return on plan assets.

L) FOREIGN CURRENCY TRANSLATION

Financial statements of self-sustaining foreign subsidiaries are translated using the rate in effect at the balance sheet date for asset and liability items, and using the average exchange rates during the period for revenues and expenses. Adjustments arising from this translation are deferred and recorded in the foreign currency translation adjustment account and are included in income only when a reduction in the investment in these foreign subsidiaries is realized.

Other assets and liabilities denominated in foreign currency are translated in Canadian dollars at exchange rates prevailing at the balance sheet date for monetary items and at transaction date for non-monetary items. Revenues and expenses are translated at average rates prevailing during the period except for transactions being hedged which were translated using the terms of the hedges. Amounts payable or receivable on cross-currency swaps, all of which are used to hedge foreign currency debt obligations are recorded concurrently with the unrealized gains and losses on the obligations being hedged. Other foreign exchange gains and losses are included in net income, except for unrealized foreign exchange gains and losses on long-term debt denominated in foreign currencies, that is designated as a hedge of a net investment in a self-sustaining foreign subsidiary, which are included in the foreign currency translation adjustment account. During fiscal year 2006, the Corporation recognized a foreign exchange gain amounting to \$754,000 (\$748,000 in 2005) in the consolidated statements of income.

M) DERIVATIVE FINANCIAL INSTRUMENTS

The Corporation uses cross-currency swap agreements as derivative financial instruments to manage risks from fluctuations in exchange rates related to its long-term debt. The Corporation accounts for the financial instruments, under the accrual method, as hedges and, accordingly, the carrying value of the financial instruments are not adjusted to reflect their current market value. The Corporation does not hold or use any derivative instruments for speculative trading purposes. Net receipts or payments arising from cross-currency swap agreements are recognized as financial expense.

N) CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash and highly liquid investments which have an original maturity of three months or less.

O) USE OF ESTIMATES

The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, contingent assets and liabilities and the revenue and expenses during the reporting year. Significant areas requiring the use of management estimates relate to the determination of pension plans liabilities and accrued employee benefits, the determination of allowance for doubtful accounts, the useful life of assets for amortization, the determination of future cash flows for the purpose of impairment testing on all long-lived assets and customer base, the provision for income taxes and determination of future income tax assets and liabilities, and the determination of the fair value of financial instruments. Actual results could differ from these estimates.

2. BUSINESS ACQUISITION

ACQUISITION OF CABOVISÃO – TELEVISÃO POR CABO, S.A.

On June 2, 2006, the Corporation entered into an agreement with Cable Satisfaction International Inc. (“CSII”), Catalyst Fund Limited Partnership I and Cabovisão – Televisão por Cabo, S.A. (“Cabovisão”), to purchase, for a total consideration of €465.7 million, all the shares of the second largest cable telecommunications company in Portugal, an indirect wholly-owned subsidiary of CSII. The price includes the purchase of senior debt and reimbursement of certain other Cabovisão liabilities. The acquisition was completed on August 1, 2006. The final purchase price will be determined following completion of a post-closing working capital adjustment. The Corporation is assuming a €20 million working capital deficiency of Cabovisão.

The acquisition was accounted for using the purchase method. The results of Cabovisão have been consolidated as of the acquisition date.

The preliminary allocation of the purchase price of the acquisition is as follows:

(amounts are in thousands of dollars)		\$
CONSIDERATION		
PAID		
ESTIMATED SHARE PURCHASE PRICE		304,188
SECURED LENDERS DEBT AND CERTAIN SPECIFIED CABOVISÃO LIABILITIES		274,761
ACQUISITION COSTS		4,193
		583,142
AMOUNTS OUTSTANDING		
PRELIMINARY WORKING CAPITAL ADJUSTMENT		2,432
		585,574
NET ASSETS ACQUIRED		
CASH AND CASH EQUIVALENTS		5,711
RESTRICTED CASH		489
ACCOUNTS RECEIVABLE		16,570
PREPAID EXPENSES		1,324
FIXED ASSETS		287,652
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES ASSUMED		(65,282)
OTHER SPECIFIED CABOVISÃO LIABILITIES ASSUMED		(91,914)
		154,550
		EXCESS OF CONSIDERATION OVER NET ASSETS ACQUIRED
		431,024
PRELIMINARY ALLOCATION OF EXCESS OF CONSIDERATION OVER NET ASSETS ACQUIRED		
PRELIMINARY GOODWILL		431,024

In order to finance the cash component of the transaction, the Term Facility and the operating line of credit of the Corporation were restructured by an amended and restated credit agreement (see note 10 a)).

2. BUSINESS ACQUISITION (continued)

Management is currently carrying out a more specific analysis and changes will be made to the allocation of the excess of consideration over net assets acquired as the information becomes available. For example, since the measurement of the fair value of fixed assets had not yet been completed at the time of the preliminary allocation, fixed assets have been presented at cost. The measurement of indefinite and finite-lived intangible assets is also under way. Furthermore, in accordance with the Portuguese Companies Income Tax Code, accumulated tax losses cannot be deducted if the ownership of at least 50% of the social capital changes from the moment when the tax losses were generated, unless a request is filed before such change in the ownership takes place, subject to approval by the Portuguese tax authorities. To this effect, a request for preservation of tax losses was filed by Cabovisão on July 28, 2006. These losses have not been included in the preliminary purchase price allocation. Finally, the Corporation did not complete the assessment of possible costs related to the restructuring and integration of the activities of Cabovisão potentially giving rise to the recognition of a liability in the allocation of the purchase price. As a result, the actual amounts allocated to the identifiable assets acquired and liabilities assumed and the related operating results will vary according to the amounts initially recorded, and such differences could be significant.

3. AMORTIZATION

(amounts are in thousands of dollars)	2006 \$	2005 \$
FIXED ASSETS	100,306	102,597
DEFERRED CHARGES	20,476	22,491
	120,782	125,088

4. INCOME TAXES

(amounts are in thousands of dollars)	2006 \$	2005 \$
CURRENT	4,074	2,812
FUTURE	5,200	15,208
	9,274	18,020

The following table provides the reconciliation between Canadian statutory federal and provincial income taxes and the consolidated income tax expense:

(amounts are in thousands of dollars)	2006 \$	2005 \$
INCOME TAXES AT COMBINED INCOME TAX RATE OF 35.09% (34.96% IN 2005)	26,258	16,341
LOSS OR INCOME SUBJECT TO LOWER OR HIGHER TAX RATES	(226)	(218)
DECREASE IN INCOME TAXES AS A RESULT OF DECREASES IN SUBSTANTIALLY ENACTED TAX RATES	(19,820)	—
LARGE CORPORATION TAX	600	1,482
INCOME TAXES ARISING FROM NON-DEDUCTIBLE EXPENSES	1,430	—
WITHHOLDING TAXES ON INTEREST OF A FOREIGN SUBSIDIARY	314	—
OTHER	718	415
INCOME TAXES AT EFFECTIVE INCOME TAX RATE	9,274	18,020

4. INCOME TAXES (continued)

The income tax effect of temporary differences that give rise to a significant portion of future income tax assets and liabilities are as follows:

(amounts are in thousands of dollars)	2006 \$	2005 \$
FUTURE INCOME TAX ASSETS:		
NON-CAPITAL LOSS CARRYFORWARDS	18,616	29,931
DEFERRED AND PREPAID INCOME	6,453	6,328
OTHER	467	913
TOTAL FUTURE INCOME TAX ASSETS	25,536	37,172
FUTURE INCOME TAX LIABILITIES:		
FIXED ASSETS	67,952	62,350
DEFERRED CHARGES	13,536	12,961
CUSTOMER BASE	159,981	172,592
FOREIGN EXCHANGE GAIN ON LONG-TERM DEBT	1,703	—
TOTAL FUTURE INCOME TAX LIABILITIES	243,172	247,903
NET FUTURE INCOME TAX LIABILITIES	217,636	210,731

As at August 31, 2006, the Corporation and its Canadian subsidiaries had accumulated income tax losses amounting to approximately \$53,917,000, the benefits of which have been recognized in these financial statements. These losses expire as follows:

(amounts are in thousands of dollars)	2008 \$	2009 \$	2010 \$	2014 \$	2026 \$
	21,184	20,289	1,011	2,007	9,426

As at December 31, 2005, the Corporation's subsidiary, Cabovisão - Televisão por Cabo, S.A., had deductible temporary differences which may be used for an indefinite period. The related benefits have not been recognized in these financial statements. The Corporation's subsidiary has also income tax losses of approximately €204,432,000 (\$289,394,000) which may be used to reduce future years taxable income. In accordance with the Portuguese Companies Income Tax Code ("CIRC"), tax losses incurred in a financial year can be carried forward and deducted from taxable profits of one or more of the following six financial years. However, the CIRC provides for certain exceptions whereby the general rule stated above ceases to apply. One such exception is that tax losses cannot be deducted if the ownership of at least 50% of the social capital changes from the moment when the tax losses were generated, unless a request is filed before such change in the ownership takes place, subject to approval by the Portuguese tax authorities. To this effect, a request for preservation of tax losses was filed by Cabovisão on July 28, 2006. The benefits resulting from these tax losses have not been recognized in these financial statements. These losses expire as follows:

(amounts are in thousands of dollars)	2006 \$	2007 \$	2008 \$	2009 \$	2010 \$	2011 \$
	13,751	32,671	108,087	30,628	48,719	55,538

5. SEGMENTED INFORMATION

The Corporation's activities are comprised of all cable, high-speed Internet access and telephony services. The Corporation considers its cable distribution, high-speed Internet access and telephony activities as a single operating segment. The Corporation's activities are carried out in Canada and in Portugal.

The Portugal segment includes operating results since the date of the acquisition of control on August 1, 2006.

The principal financial information per business segment is presented in the table below:

	CANADA		PORTUGAL		CONSOLIDATED	
(amounts are in thousands of dollars)	2006	2005	2006	2005	2006	2005
	\$	\$	\$	\$	\$	\$
REVENUE	603,135	554,404	16,866	—	620,001	554,404
OPERATING COSTS	346,736	318,704	11,895	—	358,631	318,704
MANAGEMENT FEES	8,392	8,179	—	—	8,392	8,179
OPERATING INCOME BEFORE AMORTIZATION	248,007	227,521	4,971	—	252,978	227,521
AMORTIZATION	116,354	125,088	4,428	—	120,782	125,088
OPERATING INCOME	131,653	102,433	543	—	132,196	102,433
FINANCIAL EXPENSE	57,095	55,692	271	—	57,366	55,692
INCOME TAXES	8,960	18,020	314	—	9,274	18,020
NET INCOME (LOSS)	65,598	28,721	(42)	—	65,556	28,721
NET ASSETS EMPLOYED ⁽¹⁾⁽²⁾	1,649,631	1,595,216	561,192	—	2,210,823	1,595,216
TOTAL ASSETS ⁽²⁾	1,842,312	1,755,796	760,291	—	2,602,603	1,755,796
FIXED ASSETS ⁽²⁾	741,024	697,526	280,514	—	1,021,538	697,526
PRELIMINARY GOODWILL ⁽²⁾	—	—	422,108	—	422,108	—
ACQUISITION OF FIXED ASSETS	139,634	112,289	4,205	—	143,839	112,289

(1) TOTAL ASSETS LESS CASH AND CASH EQUIVALENTS, ACCOUNTS PAYABLE AND ACCRUED LIABILITIES AND DEFERRED AND PREPAID INCOME.

(2) AS AT AUGUST 31, 2006 AND 2005.

6. FIXED ASSETS

(amounts are in thousands of dollars)	2006	2005
	\$	\$
COST		
LAND	4,187	3,787
BUILDINGS	36,587	31,977
CABLE SYSTEMS	1,359,251	1,039,584
EQUIPMENT, PROGRAMMING EQUIPMENT, FURNITURE AND FIXTURES	43,867	42,179
HOME TERMINAL DEVICES	137,048	77,661
ROLLING STOCK UNDER CAPITAL LEASES	8,582	5,962
OTHER EQUIPMENT	35,603	43,623
LEASEHOLD IMPROVEMENTS	4,606	4,318
	1,629,731	1,249,091
ACCUMULATED AMORTIZATION		
BUILDINGS	8,518	7,764
CABLE SYSTEMS	504,923	443,133
EQUIPMENT, PROGRAMMING EQUIPMENT, FURNITURE AND FIXTURES	26,885	24,437
HOME TERMINAL DEVICES	41,477	41,680
ROLLING STOCK UNDER CAPITAL LEASES	3,106	1,899
OTHER EQUIPMENT	20,476	30,081
LEASEHOLD IMPROVEMENTS	2,808	2,571
	608,193	551,565
	1,021,538	697,526

7. DEFERRED CHARGES, NET OF AMORTIZATION

(amounts are in thousands of dollars)	2006	2005
	\$	\$
NEW SERVICES LAUNCH COSTS	1,524	2,067
RECONNECT COSTS	29,907	21,646
EQUIPMENT SUBSIDIES	5,664	13,249
FINANCING COSTS	10,232	1,262
OTHER	—	2
	47,327	38,226

8. CUSTOMER BASE AND PRELIMINARY GOODWILL

(amounts are in thousands of dollars)	2006 \$	2005 \$
CUSTOMER BASE	989,552	989,552
PRELIMINARY GOODWILL	422,108	—
	1,411,660	989,552

During the year 2006, customer base and preliminary goodwill variation were as follows:

(amounts are in thousands of dollars)	CUSTOMER BASE \$	PRELIMINARY GOODWILL \$	TOTAL \$
BALANCE, BEGINNING OF YEAR	989,552	—	989,552
BUSINESS ACQUISITION (NOTE 2)	—	431,024	431,024
FOREIGN CURRENCY TRANSLATION ADJUSTMENT	—	(8,916)	(8,916)
BALANCE, END OF YEAR	989,552	422,108	1,411,660

At August 31, 2006 and 2005, the Corporation tested the value of customer base for impairment and concluded that no impairment existed.

9. BANK INDEBTEDNESS

The Corporation has a swingline facility available for an amount of \$25,000,000, none of which was used at August 31, 2006 and 2005. This facility requires commitment fees and bear interest at bank prime rate plus 0.375%. At August 31, 2006, the interest rate on bank indebtedness is 6.375% (4.50% in 2005). This facility matures on July 28, 2011 and is secured on the same basis as the Term Facility (note 10 a)).

10. LONG-TERM DEBT

(amounts are in thousands of dollars)	MATURITY	INTEREST RATE %	2006 \$	2005 \$
PARENT COMPANY				
TERM FACILITY				
TERM LOAN	2011	5.71 ⁽¹⁾	150,000	—
TERM LOAN - €17,358,700	2011	4.50 ⁽¹⁾	24,573	—
REVOLVING LOAN - €317,000,000	2011	4.50 ⁽¹⁾	448,745	—
SENIOR SECURED DEBENTURES SERIES 1	2009	6.75	150,000	150,000
SENIOR - SECURED NOTES				
SERIES A - US \$150 MILLION	2008	6.83	165,795	178,065
SERIES B	2011	7.73	175,000	175,000
SECOND SECURED DEBENTURES SERIES A	2007	8.44	125,000	125,000
DEFERRED CREDIT	2008	—	72,855	60,585
SUBSIDIARIES				
OBLIGATIONS UNDER CAPITAL LEASES	2010	6.42-8.36	5,009	3,831
			1,316,977	692,481
LESS CURRENT PORTION			126,851	1,322
			1,190,126	691,159

(1) AVERAGE INTEREST RATE ON DEBT AS AT AUGUST 31, 2006, INCLUDING STAMPING FEES.

Interest on long-term debt amounted to \$55,240,000 (\$52,868,000 in 2005).

- a) On July 28, 2006, the Term Facility and the operating line of credit of the Corporation were restructured by an amended and restated credit agreement for credit facilities totalling \$900,000,000. The Term Facility is composed of four tranches: a first tranche, a revolving loan for an amount of \$700,000,000 available in Canadian, U.S. or Euro currencies; a second tranche, a swingline of \$25,000,000 available in Canadian or U.S. currencies; a third tranche of \$150,000,000 fully drawn, and a fourth tranche of €17,358,700 fully drawn. The Term Facility is repayable on July 28, 2011, except for the third tranche of \$150,000,000 which is repayable as follows: \$15,000,000 on July 28, 2008, \$22,500,000 on July 28, 2009, \$37,500,000 on July 28, 2010 and the balance on July 28, 2011. Earlier repayments can be made without penalty. The Term Facility requires commitment fees, and interest rates are based on bankers' acceptance, LIBOR, EURIBOR, bank prime rate loan or U.S. base rate loan plus stamping fees. The Term Facility is secured by a first fixed and floating charge on the assets of the Corporation and certain of its subsidiaries except for permitted encumbrances, including purchased money obligations, existing funded obligations and charges granted by any subsidiary prior to the date when it becomes a subsidiary subject to a maximum amount. The provisions under these facilities provide for restrictions on the operations and activities of the Corporation. Generally, the most significant restrictions relate to permitted investments, dividends on multiple and subordinate voting shares and reimbursement of long-term debt as well as incurrence and maintenance of certain financial ratios primarily linked to the operating income before amortization, financial expense and total indebtedness.
- b) The Senior Secured Debentures Series 1 are redeemable at the Corporation's option, in whole or in part, at the greater of par value or the Canada bond yield plus 0.3%. These debentures mature on June 4, 2009 and bear interest at 6.75% per annum, payable semi-annually. These debentures are indirectly secured by a first fixed and floating charge and a security interest on all assets of the Corporation and certain of its subsidiaries.

10. LONG-TERM DEBT (continued)

- c) The Senior Secured Notes are senior secured obligations and rank equally and rateably with all existing and future senior indebtedness. These notes are indirectly secured by a first fixed and floating charge and a security interest on all assets of the Corporation and certain of its subsidiaries. The notes are redeemable at the Corporation's option at any time, in whole or in part, prior to maturity at 100% of the principal amount plus a make-whole premium. The Series A mature on October 31, 2008 and the Series B mature on October 31, 2011. The Senior Secured Notes Series B have an interest coupon rate of 7.73% per annum, payable semi-annually. On November 1, 2001, the Corporation entered into cross-currency swap agreements to fix the liability for interest and principal payments on US \$150,000,000 of its Senior Notes Series A which have an interest coupon rate of 6.83% per annum, payable semi-annually. These agreements have resulted in an effective interest rate of 7.254% on the Canadian dollar equivalent of the US debt. The exchange rate applicable to the principal portion of the debt has been fixed at CDN \$1.5910.
- d) The Second Secured Debentures Series A are redeemable at the Corporation's option, in whole or in part, at the greater of par value or Canada bond yield plus 0.5%. These debentures mature on July 31, 2007, and bear interest at 8.44% per annum, payable semi-annually. These debentures are secured by second fixed charges on certain assets and floating charges on all assets of the Corporation and certain of its subsidiaries.
- e) The deferred credit represents the amount which would have been payable at August 31, 2006 and 2005 under cross-currency swaps entered into by the Corporation to hedge Senior Secured Notes Series A denominated in US dollars (note 10 c)).

- f) Principal repayments due on long-term debt for the next five years, excluding those under capital leases, are as follows:

(amounts are in thousands of dollars)	2007	2008	2009	2010	2011
	\$	\$	\$	\$	\$
	125,000	15,000	411,150	37,500	548,318

- g) Minimum payments due under capital leases total \$5,584,000 of which \$575,000 represents financial expense and are as follows:

(amounts are in thousands of dollars)	2007	2008	2009	2010	2011
	\$	\$	\$	\$	\$
	2,158	1,786	1,190	450	—

11. CAPITAL STOCK

AUTHORIZED

Unlimited number of:

Class A Preference shares, without voting rights, redeemable by the Corporation and retractable at the option of the holder at any time at a price of \$1 per share, carrying a cumulative preferential cash dividend at a rate of 11% of the redemption price per year.

Class B Preference shares, without voting rights, could be issued in series.

Multiple voting shares, 10 votes per share.

Subordinate voting shares, 1 vote per share.

ISSUED

(amounts are in thousands of dollars, except number of shares)	2006 \$	2005 \$
15,691,100 MULTIPLE VOTING SHARES	98,346	98,346
24,308,112 SUBORDINATE VOTING SHARES (24,293,486 IN 2005)	532,112	531,874
	630,458	630,220

During the year, subordinate voting shares transactions were as follows:

(amounts are in thousands of dollars, except number of shares)	NUMBER OF SHARES	2006 AMOUNT \$	NUMBER OF SHARES	2005 AMOUNT \$
BALANCE AT BEGINNING	24,293,486	531,874	24,232,815	531,070
SHARES ISSUED FOR CASH UNDER THE EMPLOYEE STOCK PURCHASE PLAN AND THE STOCK OPTION PLAN	14,626	228	60,671	742
COMPENSATION EXPENSE PREVIOUSLY RECORDED IN CONTRIBUTED SURPLUS FOR OPTIONS EXERCISED	—	10	—	62
BALANCE AT END	24,308,112	532,112	24,293,486	531,874

During 2006, the Corporation issued 7,514 shares (5,209 shares in 2005) pursuant to its Employee Stock Purchase Plan for a cash consideration of \$162,000 (\$111,000 in 2005). Also, the Corporation issued 7,112 shares (55,462 shares in 2005) pursuant to its Employee Stock Option Plan for a cash consideration of \$66,000 (\$631,000 in 2005).

STOCK-BASED PLANS

The Corporation established, for the benefit of its employees and those of its subsidiaries, an Employee Stock Purchase Plan and a Stock Option Plan for certain executives. Under these plans, no more than 10% of the outstanding subordinate voting shares are available.

Stock purchase plan

The Employee Stock Purchase Plan is accessible to all employees up to a maximum of 5% of their annual salary. The subscription date is December 31 and the subscription price is based on the average market price of the shares of the last five business days of November less 10%. A maximum of 167,500 shares are available, up to 40,000 annually, under this plan.

11. CAPITAL STOCK (continued)

STOCK OPTION PLAN

A total of 1,832,500 subordinate voting shares are reserved for the purpose of the Stock Option Plan. The minimum purchase price at which options are granted is not less than the market value of such shares at the time the option is granted. Granted options vest 20% per year beginning the day such options are granted and are exercisable over 10 years. During fiscal year 2006, the Corporation granted 136,059 stock options (140,766 in 2005) with an exercise price ranging from \$24.15 to \$29.05 (\$21.50 in 2005) of which 31,743 stock options (38,397 in 2005) were granted to COGECO Inc.' employees. For the exercise of options granted on or after October 17, 2003, an amount equivalent to 20% of net gain after related taxes must be kept in shares of the Corporation until termination of employment with the Corporation or retirement.

Under the Stock Option Plan, the following options were granted by the Corporation and are outstanding as at August 31:

	2006		2005	
	OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE \$	OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE \$
OUTSTANDING, BEGINNING OF YEAR	590,723	18.98	509,515	17.42
GRANTED	136,059	28.61	140,766	21.50
EXERCISED	(7,112)	9.26	(55,462)	11.38
FORFEITED	(4,099)	23.89	(4,096)	14.35
OUTSTANDING, END OF YEAR	715,571	20.88	590,723	18.98
EXERCISABLE, END OF YEAR	433,855	20.35	326,851	19.74

At August 31, 2006, the range of exercise prices, the weighted average exercise price and the weighted average remaining contractual life of options are as follows:

RANGE OF EXERCISE PRICES \$	Options outstanding			Options exercisable	
	NUMBER OUTSTANDING	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE (YEARS)	WEIGHTED AVERAGE EXERCISE PRICE \$	NUMBER EXERCISABLE	WEIGHTED AVERAGE EXERCISE PRICE \$
7.05	80,288	6.17	7.05	53,350	7.05
14.30 to 18.12	161,828	6.92	16.42	97,515	16.33
20.40 to 25.20	330,611	6.35	22.45	238,496	22.73
29.05	122,938	9.17	29.05	24,588	29.05
36.10 to 40.75	19,906	4.13	36.39	19,906	36.39
	715,571	6.88	20.88	433,855	20.35

11. CAPITAL STOCK (continued)

The Corporation recorded compensation expense for options granted on or after September 1, 2003. As a result, a compensation expense of \$775,000 (\$484,000 in 2005) was recorded for the year ended August 31, 2006. If compensation cost had been recognized using the fair value-based method at the grant date for options granted between September 1, 2001 and August 31, 2003, the Corporation's net income and earnings per share for the years ended August 31, 2006 and 2005 would have been reduced to the following pro forma amounts:

(amounts are in thousands of dollars, except per share data)	2006	2005
	\$	\$
NET INCOME		
AS REPORTED	65,556	28,721
PRO FORMA	65,475	28,337
BASIC EARNINGS PER SHARE		
AS REPORTED	1.64	0.72
PRO FORMA	1.64	0.71
DILUTED EARNINGS PER SHARE		
AS REPORTED	1.63	0.72
PRO FORMA	1.63	0.71

The fair value of each option granted was estimated on the grant date for purposes of determining stock-based compensation expense using the Binomial option pricing model based on the following assumptions:

(in percentage, except expected life in years)	2006	2005
	%	%
EXPECTED DIVIDEND YIELD	1.27	1.27
EXPECTED VOLATILITY	39	43
RISK-FREE INTEREST RATE	3.70	3.70
EXPECTED LIFE IN YEARS	4.0	4.0

The fair value of stock options granted for the year ended August 31, 2006 was \$9.32 (\$7.46 in 2005) per option.

For purpose of compensation expense and pro forma disclosures, stock-based compensation is amortized to expense on a straight-line basis over the vesting period, which is four years.

PERFORMANCE UNIT PLAN

The Corporation has also adopted a Performance Unit Plan for key employees. The value of a performance unit granted is equal to the closing price of the subordinate voting shares of the Corporation on the Toronto Stock Exchange on the trading day preceding the date of grant of the unit. The units credited to the participant's account will become vested to the participant on the third anniversary of the date of grant of the said performance units. The units credited before October 17, 2003, will be redeemed only at the termination of the participant's employment or in case of retirement or death. The units credited to the participant's account on or after October 17, 2003, which are vested to the participant may also be redeemed, at the request of the participant, at the following conditions:

- i) Invest an amount equal to 20% of the net income after related tax resulting from any such realization in shares of the Corporation;
- ii) Hold such shares until the termination of employment with the Corporation or retirement.

11. CAPITAL STOCK (continued)

Each unit credited gives the right to a Dividend Equivalent equal to the amount of dividend per share paid on the subordinate voting shares of the Corporation. The Dividend Equivalent is converted into additional units. The units do not confer on the participant the right to acquire shares or other securities of the Corporation under any circumstances and the participant shall not, by holding units or otherwise be considered a shareholder of the Corporation nor have any rights to become a shareholder as a result. During fiscal 2006 and 2005, no performance unit were granted to employees by the Corporation. In 2006, an expense amounting to \$139,000 (\$197,000 in 2005) has been recorded related to this plan.

12. FOREIGN CURRENCY TRANSLATION ADJUSTMENT

The change in the foreign currency translation adjustment included in shareholders' equity is the result of the fluctuation in the exchange rates on translation of net investments in self-sustaining foreign operations and foreign exchange gains or losses related to long-term debt denominated in foreign currency used to hedge net investments. The net change in foreign currency translation adjustment for 2006 is as follows:

(amounts are in thousands of dollars)	\$
EFFECT OF EXCHANGE RATE VARIATION ON TRANSLATION OF NET INVESTMENTS IN SELF-SUSTAINING FOREIGN SUBSIDIARIES	(12,412)
EFFECT OF EXCHANGE RATE VARIATION ON TRANSLATION OF LONG-TERM DEBT DESIGNATED AS HEDGE OF NET INVESTMENTS IN SELF-SUSTAINING SUBSIDIARIES, NET OF INCOME TAXES OF \$1,703,000	7,960
	(4,452)

13. EARNINGS PER SHARE

The following table provides a reconciliation between basic and diluted earnings per share:

(amounts are in thousands of dollars, except number of shares and per share data)	2006 \$	2005 \$
NET INCOME	65,556	28,721
WEIGHTED AVERAGE NUMBER OF MULTIPLE VOTING AND SUBORDINATE VOTING SHARES OUTSTANDING	39,990,239	39,964,857
EFFECT OF DILUTIVE STOCK OPTIONS ⁽¹⁾	172,784	161,587
WEIGHTED AVERAGE NUMBER OF DILUTED MULTIPLE VOTING AND SUBORDINATE VOTING SHARES OUTSTANDING	40,163,023	40,126,444
EARNINGS PER SHARE		
BASIC	1.64	0.72
DILUTED	1.63	0.72

(1) IN 2006, A TOTAL OF 150,647 STOCK OPTIONS (55,665 IN 2005) WERE EXCLUDED FROM THE CALCULATION OF DILUTED EARNINGS PER SHARE SINCE THE EXERCISE PRICE OF THE OPTIONS WAS GREATER THAN THE AVERAGE SHARE PRICE OF THE SUBORDINATE VOTING SHARES.

14. FINANCIAL INSTRUMENTS

FAIR VALUE

The Corporation uses the following methods and assumptions to evaluate fair market value of financial instruments:

Cash and cash equivalents, restricted cash, accounts receivable, bank indebtedness and accounts payable and accrued liabilities

The carrying amount in the consolidated balance sheets approximates fair value because of the short-term nature of these instruments.

Long-term debt

- a) Financial expense under the terms of the Corporation's Term Facility is based, on bankers' acceptance, LIBOR, EURIBOR, bank prime rate loan or U.S. base rate loan plus stamping fees. Therefore, carrying value is considered to represent fair market value for the Term Facility.
- b) The fair value of the Senior Secured Debentures Series 1, Senior Secured Notes Series A and B, and Second Secured Debentures Series A, is based upon current trading values for similar financial instruments.
- c) The carrying values of obligations under capital leases approximate fair value of these financial instruments due to their terms.
- d) The fair value of the derivative financial instruments is based upon available information about the financial instruments and market conditions.

The estimated fair values of long-term debt instruments and derivative instruments are as follows:

(amounts are in thousands of dollars)	2006		2005	
	CARRYING AMOUNT \$	ESTIMATED FAIR VALUE \$	CARRYING AMOUNT \$	ESTIMATED FAIR VALUE \$
LONG-TERM DEBT	1,244,122	1,264,034	631,896	679,461
DERIVATIVE FINANCIAL INSTRUMENTS - LIABILITY POSITION	72,855	82,910	60,585	74,972

Fair values are estimated at a specific point in time, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

CREDIT RISK

The Corporation's credit risk arises from the possibility that counterparts to the cross-currency swap agreements may default on their obligations. The Corporation reduces risk by completing transactions with financial institutions that carry a credit rating equal to or superior to its own credit rating. In addition, since the Corporation has a large and diversified clientele, credit risk concentration from customers is minimal.

15. STATEMENTS OF CASH FLOW

A) CHANGES IN NON-CASH OPERATING ITEMS

(amounts are in thousands of dollars)	2006	2005
	\$	\$
ACCOUNTS RECEIVABLE	(1,131)	4,554
PREPAID EXPENSES	(1,020)	589
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	1,681	15,688
INCOME TAX LIABILITIES	(228)	(166)
DEFERRED AND PREPAID INCOME	1,749	2,992
	1,051	23,657

B) FIXED ASSETS

During the year, fixed assets acquisitions amounted to \$143,839,000 (\$112,289,000 in 2005), \$2,898,000 (\$1,924,000 in 2005) of which were acquired through capital leases. Disbursements for the purchase of fixed assets totalled \$140,941,000 (\$110,365,000 in 2005).

C) OTHER INFORMATION

(amounts are in thousands of dollars)	2006	2005
	\$	\$
INTEREST PAID	54,892	54,438
INCOME TAXES PAID	4,308	2,978

16. EMPLOYEES FUTURE BENEFITS

The Corporation and its subsidiaries offer their employees contributory defined benefit pension plans, a defined contribution pension plan or a collective registered retirement savings plan. With respect to the last two plans, the Corporation and its subsidiaries' obligations are limited to the payment of the monthly employer's portion. Expenses related to these two plans amounted to \$1,522,000 (\$1,239,000 in 2005).

The defined benefit pension plans provide pensions based on the number of years of service and the average salary during the employment of each participant. In addition, the Corporation and its subsidiaries offer certain executives a supplementary pension plan. The Corporation measures plans' assets at fair value and the accrued benefit obligation as at August 31 of each year for all plans. The most recent actuarial valuation of the pension plans were as of August 31, 2005 and the next required valuation will be as of August 31, 2006.

The following table provides a reconciliation of the change in the plans' benefit obligations and plans' assets at fair value and a statement of the funded status as at August 31:

(amounts are in thousands of dollars)	2006 \$	2005 \$
ACCRUED BENEFIT OBLIGATION		
ACCRUED BENEFIT OBLIGATION AT BEGINNING OF YEAR	9,279	6,474
CURRENT SERVICE COST	794	454
PAST SERVICE COST	197	—
INTEREST COST	517	462
CONTRIBUTIONS BY PLANS' PARTICIPANTS	211	160
BENEFITS PAID	(224)	(205)
ACTUARIAL LOSS (GAIN) ON OBLIGATION	(747)	1,934
ACCRUED BENEFIT OBLIGATION AT END OF YEAR	10,027	9,279
PLANS' ASSETS AT FAIR VALUE		
PLANS' ASSETS AT FAIR VALUE AT BEGINNING OF YEAR	5,704	4,561
ACTUAL RETURN ON PLANS' ASSETS	280	730
CONTRIBUTIONS BY PLANS' PARTICIPANTS	211	160
EMPLOYER CONTRIBUTIONS	717	458
BENEFITS PAID	(224)	(205)
PLANS' ASSETS AT FAIR VALUE AT END OF YEAR	6,688	5,704
FUNDED STATUS		
PLANS' ASSETS AT FAIR VALUE	6,688	5,704
ACCRUED BENEFIT OBLIGATION	10,027	9,279
PLANS' DEFICIT	3,339	3,575
UNAMORTIZED ACTUARIAL LOSSES	(1,581)	(2,328)
UNAMORTIZED PAST SERVICE COST	(184)	—
NET ACCRUED BENEFIT LIABILITY	1,574	1,247

The accrued benefit liability is included in the Corporation's balance sheet under pension plans liabilities and accrued employee benefits.

16. EMPLOYEES FUTURE BENEFITS (continued)

(amounts are in thousands of dollars)	2006	2005
	\$	\$
DEFINED BENEFIT PENSION COSTS		
CURRENT SERVICE COST	794	454
PAST SERVICE COST	197	—
INTEREST COST	517	462
ACTUAL RETURN ON PLANS' ASSETS	(280)	(730)
ACTUARIAL LOSS (GAIN) ON OBLIGATION	(747)	1,934
DIFFERENCE BETWEEN PAST SERVICE COST AND AMORTIZATION OF PAST SERVICE COST	(184)	—
DIFFERENCE BETWEEN EXPECTED RETURN AND ACTUAL RETURN ON PLANS' ASSETS	(160)	385
DIFFERENCE BETWEEN ACTUARIAL LOSS (GAIN) AND AMORTIZATION OF NET ACTUARIAL LOSS	907	(1,848)
NET PERIODIC BENEFIT COST	1,044	657

Plans' assets consist of:

	2006	2005
	%	%
EQUITY SECURITIES	32	62
DEBT SECURITIES	64	32
OTHER	4	6
TOTAL	100	100

The significant weighted average assumptions used in measuring the Corporation's pension and other obligations are as follows:

	2006	2005
	%	%
ACCRUED BENEFIT OBLIGATION		
DISCOUNT RATE	5.50	5.00
RATE OF COMPENSATION INCREASE	5.00	5.00
DEFINED BENEFIT PENSION COSTS		
DISCOUNT RATE	5.00	6.25
EXPECTED LONG-TERM RATE OF RETURN ON PLANS' ASSETS	7.25	7.25
RATE OF COMPENSATION INCREASE	5.00	5.00

17. COMMITMENTS AND CONTINGENCIES

COMMITMENTS

As at August 31, 2006, the Corporation and its subsidiaries are committed under lease agreements and other long term contracts to make annual payments as follows:

(amounts are in thousands of dollars)						
	2007	2008	2009	2010	2011	2012 AND THEREAFTER
	\$	\$	\$	\$	\$	\$
	17,978	16,873	15,296	13,929	10,590	11,276

CONTINGENCIES

The Corporation and its subsidiaries are involved in matters involving litigation arising out of the ordinary course and conduct of its business. Although such matters cannot be predicted with certainty, management does not consider the Corporation's exposure to litigation to be significant to these financial statements.

DISCLOSURE OF GUARANTEES

In the normal course of business, the Corporation enters into agreements containing features that meet the criteria for a guarantee including the following:

BUSINESS ACQUISITION AND ASSETS DISPOSAL

In connection with the acquisition of business or sale of assets, in addition to possible indemnification relating to failure to perform covenants and breach of representations and warranties, the Corporation has agreed to indemnify the seller or the purchaser against claims related to events which occurred prior to the date of acquisition or sale. The term and amount of such indemnification will sometimes be limited by the agreement. The nature of these indemnification agreements prevents the Corporation from estimating the maximum potential liability required to be paid to guaranteed parties. In management's opinion, the likelihood that a significant liability will be incurred under these obligations is low. The Corporation has purchased directors' and officers' liability insurance with a deductible per loss. As at August 31, 2006 and 2005, no liability has been recorded associated with these indemnifications.

LONG-TERM DEBT

Under the terms of the Term Facility, the Senior Secured Notes and the Second Secured Debentures Series A, the Corporation has agreed to indemnify the other parties against changes in regulation relative to withholding taxes and costs incurred by the lenders due to changes in laws. These indemnifications extend for the term of the related financings and do not provide any limit on the maximum potential liability. The nature of the indemnification agreement prevents the Corporation from estimating the maximum potential liability it could be required to pay. As at August 31, 2006 and 2005, no liability has been recorded associated with these indemnifications.

18. RELATED PARTY TRANSACTIONS

Cogeco Cable Inc. is a subsidiary of COGECO Inc. which holds 39.2% of the Corporation's equity shares, representing 86.6% of the Corporation's voting shares. On September 1, 1992, Cogeco Cable Inc. executed a management agreement with COGECO Inc. under which the parent company agreed to provide certain executive, administrative, legal, regulatory, strategic and financial planning services and additional services to the Corporation and its subsidiaries (the "Management Agreement"). These services are provided by COGECO Inc.'s officers, including the President and Chief Executive Officer, the Vice President, Finance and Chief Financial Officer and the Vice President, Corporate Affairs. No direct remuneration is payable to such officers by the Corporation. However, the Corporation granted 31,743 stock options (38,397 in 2005) to COGECO Inc.'s officers during fiscal year 2006.

Under the Management Agreement, the Corporation pays monthly fees equal to 2% of its total revenue to COGECO Inc. for the above mentioned services. In 1997, the management fee was capped at \$7,000,000 per year, subject to annual upward adjustment based on increases in the Consumer Price Index in Canada. This limit can be increased under certain circumstances upon request to that effect by COGECO Inc. For fiscal year 2006, the limit and the amount paid to COGECO Inc. in management fees was \$8,392,000 (\$8,179,000 in 2005). In addition, the Corporation reimburses COGECO Inc.'s out-of-pocket expenses incurred in respect of services provided to the Corporation under the Management Agreement.

19. COMPARATIVE FIGURES

Certain comparative figures have been reclassified in order to conform to the presentation adopted in 2006.

FIVE-YEAR FINANCIAL HIGHLIGHTS

(in thousands of dollars, except other statistics, per share data and ratios)	2006	2005	2004	2003 (RESTATED)	2002 (RESTATED)
	\$	\$	\$	\$	\$
OPERATIONS					
REVENUE	620,001	554,404	526,480	489,194	460,502
OPERATING INCOME BEFORE AMORTIZATION	252,978	227,521	203,246	175,609	159,500
FINANCIAL EXPENSE	57,366	55,692	57,957	61,113	59,645
INCOME (LOSS) BEFORE INCOME TAXES	74,830	46,741	5,075	4,262	(3,224)
NET INCOME (LOSS)	65,556	28,721	(32,194)	(124)	(4,524)
CASH FLOW					
CASH FLOW FROM OPERATIONS	194,739	170,938	144,778	112,525	102,327
ACQUISITIONS OF FIXED ASSETS AND INCREASE IN DEFERRED CHARGES	164,446	125,671	101,244	110,119	142,062
BUSINESS ACQUISITION	577,431	—	—	—	—
FREE CASH FLOW	30,293	45,267	43,534	2,406	(39,735)
FINANCIAL CONDITION					
FIXED ASSETS	1,021,538	697,526	687,960	723,273	726,200
NET ASSETS EMPLOYED ⁽¹⁾	2,210,823	1,595,216	1,619,540	1,663,936	1,684,378
TOTAL ASSETS	2,602,603	1,755,796	1,761,379	1,802,744	1,812,475
INDEBTEDNESS	1,316,977	692,481	758,133	806,429	828,570
SHAREHOLDERS' EQUITY	745,191	689,484	663,534	695,089	695,197
OTHER STATISTICS					
NUMBER OF SHARES OUTSTANDING AT YEAR-END	39,999,212	39,984,586	39,923,915	39,881,143	39,873,814
WEIGHTED AVERAGE NUMBER OF OUTSTANDING SHARES	39,990,239	39,964,857	39,901,595	39,881,871	39,871,601
PER SHARE DATA (BASIC)					
OPERATING INCOME BEFORE AMORTIZATION	6.33	5.69	5.09	4.40	4.00
NET INCOME (LOSS)	1.64	0.72	(0.81)	(0.00)	(0.11)
CASH FLOW FROM OPERATIONS	4.87	4.28	3.63	2.82	2.57
RETURN RATIOS					
OPERATING MARGIN ⁽²⁾	40.8%	41.0%	38.6%	35.9%	34.6%
RETURN ON AVERAGE NET ASSETS EMPLOYED ⁽³⁾	13.3%	14.2%	12.4%	10.5%	9.5%
RETURN ON EQUITY ⁽⁴⁾	9.1%	4.2%	(4.7)%	(0.0)%	(0.6)%
FINANCIAL RATIOS					
NET INDEBTEDNESS ⁽⁶⁾ /OPERATING INCOME BEFORE AMORTIZATION	4.9 ⁽⁷⁾	3.0	3.7	4.6	5.2
INTEREST COVERAGE ⁽⁵⁾	4.4 ⁽⁷⁾	4.1	3.5	2.9	2.7
NET INDEBTEDNESS ⁽⁶⁾ /SHAREHOLDERS' EQUITY	1.7	1.0	1.1	1.2	1.2

(1) TOTAL ASSETS LESS CASH AND CASH EQUIVALENTS, ACCOUNTS PAYABLE AND ACCRUED LIABILITIES AND DEFERRED AND PREPAID INCOME.

(2) OPERATING INCOME BEFORE AMORTIZATION/REVENUE.

(3) OPERATING INCOME BEFORE AMORTIZATION /AVERAGE NET ASSETS EMPLOYED.

(4) NET INCOME APPLICABLE TO MULTIPLE VOTING SHARES AND SUBORDINATE VOTING SHARES/AVERAGE SHAREHOLDERS' EQUITY.

(5) OPERATING INCOME BEFORE AMORTIZATION/FINANCIAL EXPENSE.

(6) INDEBTEDNESS NET OF CASH AND CASH EQUIVALENTS.

(7) FOR FISCAL YEAR 2006, THE RATIO INCLUDES THE FINANCIAL RESULTS FOR A ONE-MONTH PERIOD OF CABOVISÃO - TELEVISÃO POR CABO, S.A.

INVESTOR INFORMATION

CONSOLIDATED CAPITALIZATION

AS AT AUGUST 31, (in thousands of dollars)	2006 \$	2005 \$	2004 \$
INDEBTEDNESS	1,316,977	692,481	758,133
SHAREHOLDERS' EQUITY	745,191	689,484	663,534
TOTAL	2,062,168	1,381,965	1,421,667

CREDIT RATINGS

In fiscal 2006, DBRS and S&P downgraded Cogeco Cable's credit ratings.

AS AT AUGUST 31, 2006	DBRS	S&P
SENIOR SECURED NOTES, SERIES A AND B	BB	BB+
SENIOR SECURED DEBENTURES, SERIES 1	BB	BB+
SECOND SECURED DEBENTURES, SERIES A	BB (LOW)	BB

SHARE INFORMATION

AS AT AUGUST 31, 2006	REGISTRAR/TRANSFER AGENT
NUMBER OF MULTIPLE VOTING SHARES (10 VOTES PER SHARE) OUTSTANDING	COMPUTERSHARE TRUST COMPANY OF CANADA 100 UNIVERSITY AVENUE, 9TH FLOOR TORONTO, ON M5J 2Y1 TEL.: 514-982-7555 TEL.: 1 800 564-6253 FAX: 416-263-9394
15,691,100	
NUMBER OF SUBORDINATE VOTING SHARES (1 VOTE PER SHARE) OUTSTANDING	
24,308,112	
STOCK EXCHANGE LISTING	THE TORONTO STOCK EXCHANGE
TRADING SYMBOL	CCA

DIVIDEND POLICY

The Corporation declared an annual dividend of \$0.16, or \$0.04 quarterly, during fiscal 2006 (a quarterly dividend of \$0.02 during the first three quarters and \$0.04 during the last quarter, totalling \$0.10 per share on an annual basis were paid in fiscal 2005) to the holders of subordinate voting shares and multiple voting shares.

TRADING STATISTICS

(in dollars, except subordinate voting share volumes)					2006
QUARTERS ENDED	NOV. 30	FEB. 28	MAY 31	AUG. 31	TOTAL
	\$	\$	\$	\$	
THE TORONTO STOCK EXCHANGE					
HIGH	32.61	29.74	29.74	29.32	
LOW	23.05	23.00	26.75	20.21	
CLOSE	23.44	27.55	29.20	25.24	
VOLUME (SHARES)	3,645,929	3,883,698	2,122,559	4,790,010	14,442,196
QUARTERS ENDED	NOV. 30	FEB. 28	MAY 31	AUG. 31	2005 TOTAL
	\$	\$	\$	\$	
THE TORONTO STOCK EXCHANGE					
HIGH	24.49	26.00	26.75	33.19	
LOW	20.00	23.35	24.80	25.50	
CLOSE	23.60	25.59	25.85	32.45	
VOLUME (SHARES)	2,550,984	2,583,157	1,255,912	2,830,029	9,220,082

CUSTOMER STATISTICS

NUMBER OF CUSTOMERS	2006	2005	2004	2003	2002
HOMES PASSED					
CANADA	1,476,904	1,448,733	1,423,256	1,397,486	1,375,494
PORTUGAL	826,369	—	—	—	—
TOTAL	2,303,273	1,448,733	1,423,256	1,397,486	1,375,494
HOMES CONNECTED⁽¹⁾					
CANADA	894,385	876,490	873,546	830,077	843,598
PORTUGAL	274,798	—	—	—	—
TOTAL	1,169,183	876,490	873,546	830,077	843,598
REVENUE-GENERATING UNITS					
CANADA ⁽³⁾	1,555,936	1,347,733	1,271,899	1,188,369	1,124,358
PORTUGAL	629,041	—	—	—	—
TOTAL	2,184,977	1,347,733	1,271,899	1,188,369	1,124,358
BASIC SERVICE CUSTOMERS					
CANADA	833,177	821,433	823,855	820,657	836,368
PERCENT PENETRATION	56.4%	56.7%	57.9%	58.7%	60.8%
PORTUGAL	269,694	—	—	—	—
PERCENT PENETRATION	32.6%	—	—	—	—
TOTAL	1,102,871	821,433	823,855	820,657	836,368
PERCENT PENETRATION	47.9%	56.7%	57.9%	58.7%	60.8%
HSI SERVICE CUSTOMERS					
CANADA	343,080	277,648	239,608	198,609	161,999
PENETRATION AS PERCENTAGE OF BASIC ⁽²⁾	44.3%	37.7%	33.4%	27.6%	22.5%
PORTUGAL	136,278	—	—	—	—
PENETRATION AS PERCENTAGE OF BASIC ⁽²⁾	50.5%	—	—	—	—
TOTAL	479,358	277,648	239,608	198,609	161,999
DIGITAL TELEVISION SERVICE CUSTOMERS					
CANADA ⁽³⁾	327,364	247,204	208,436	162,533	129,798
PENETRATION AS PERCENTAGE OF BASIC ⁽²⁾	40.0%	30.7%	25.8%	20.2%	16.5%
PORTUGAL	—	—	—	—	—
PENETRATION AS PERCENTAGE OF BASIC ⁽²⁾	—	—	—	—	—
TOTAL	327,364	247,204	208,436	162,533	129,798
TELEPHONY SERVICE CUSTOMERS					
CANADA	52,315	1,448	—	—	—
PENETRATION AS PERCENTAGE OF BASIC ⁽²⁾	10.4%	0.2%	—	—	—
PORTUGAL	223,069	—	—	—	—
PENETRATION AS PERCENTAGE OF BASIC ⁽²⁾	82.7%	—	—	—	—
TOTAL	275,384	1,448	—	—	—

(1) HSI SERVICE CUSTOMERS WHO DO NOT SUBSCRIBE TO OTHER CABLE SERVICES AND BASIC SERVICE CUSTOMERS.

(2) CALCULATED ON THE BASIS OF THE SYSTEMS WHERE THE SERVICE IS OFFERED.

(3) THE NUMBER OF DIGITAL TELEVISION SERVICE CUSTOMERS FOR FISCAL 2005 WAS RESTATED TO REFLECT CHANGES BROUGHT ABOUT BY THE CORPORATION'S BILLING IMPROVEMENT PROGRAM, WHICH HAS ALLOWED COGECO CABLE TO IDENTIFY DIGITAL TELEVISION SERVICE CUSTOMER ACCOUNTS THAT WERE NOT CANCELLED WHEN THEY BECAME INACTIVE. THIS CHANGE RESULTED IN A DOWNWARD ADJUSTMENT OF 8,085 CUSTOMERS AS AT AUGUST 31, 2005.

CUSTOMER STATISTICS (continued)

	HOMES PASSED		BASIC SERVICE
		CUSTOMERS	% OF PENETRATION ⁽¹⁾
BREAKDOWN			
ONTARIO	1,002,187	587,289	58.6%
QUÉBEC	474,717	245,888	51.8%
CANADA	1,476,904	833,177	56.4%
PORTUGAL	826,369	269,694	32.6%
TOTAL	2,303,273	1,102,871	47.9%

(1) AS PERCENTAGE OF HOMES PASSED.

BOARD OF DIRECTORS AND CORPORATE MANAGEMENT

BOARD OF DIRECTORS

★▲◆ JAN PEETERS

Montréal (Québec)
President and Chief Executive Officer
and Board Chair,
Olameter Inc.
Board Chair

- HENRI AUDET, Eng., C.M., B.A., B.A.Sc., M.Sc., D.Sc.
Montréal (Québec)
Chairman Emeritus
Director

- LOUIS AUDET, Eng., M.B.A.
Westmount (Québec)
President and Chief Executive Officer
Director

- ◆ JACQUELINE L. BOUTET, C.M., M.M.
Montréal (Québec)
President,
Jacqueline L. Boutet Inc.
Director

- WILLIAM PRESS COOPER, B.Sc., P.Eng., F.C.S.C.E.
Oakville (Ontario)
President and Chief Executive Officer,
Cooper Construction Limited
Director

- ★▲◆ CLAUDE A. GARCIA, B.A., B.Com.
Montréal (Québec)
Corporate Director
Director

★●▲ GERMAINE GIBARA

Montréal (Québec)
President,
Avvio Management Inc.
Director

- HARRY A. KING, B.A., C.A.
Vancouver (British Columbia)
President,
Harking Investments Ltd.
Director

HENRI P. LABELLE, B. Arch., M.B.A.
Montréal (Québec)
Architect and Certified Arbitrator
Director

- ★◆ DAVID MCAUSLAND, B.C.L., LL.B.
Beaconsfield (Québec)
Executive Vice President,
Corporate Development
and Chief Legal Officer,
Alcan Inc.
Director

Legend:

- MEMBER OF THE EXECUTIVE COMMITTEE
- MEMBER OF THE AUDIT COMMITTEE
- ▲ MEMBER OF THE HUMAN RESOURCES COMMITTEE
- ◆ MEMBER OF THE CORPORATE GOVERNANCE COMMITTEE
- ★ MEMBER OF THE STRATEGIC OPPORTUNITIES COMMITTEE

CORPORATE MANAGEMENT

LOUIS AUDET

President and Chief Executive Officer

J. FRANÇOIS AUDET

Vice President,
Telecommunications

DENIS BÉLANGER

Vice President,
Engineering and Development

PIERRE GAGNÉ

Vice President,
Finance and Chief Financial Officer

GASTON GERMAIN

Vice President, Ontario

JACQUES GRAVEL

Vice President, Québec

JULES GRENIER

Vice President, Portugal

CHRISTIAN JOLIVET

Chief Legal Officer and Secretary

HÉLÈNE LAURIN

Vice President, Administration and Control

YVES MAYRAND

Vice President, Corporate Affairs

RON A. PERROTTA

Vice President, Marketing

LOUISE ST-PIERRE

Vice President and Chief Information Officer

OPERATIONS AND CORPORATE INFORMATION

OPERATIONS

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Fax: (905) 332-8426

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Trois-Rivières (Québec)
G8Y 5B8
Tel.: (819) 379-2443
Fax: (819) 372-3318

CABOVISÃO – TELEVISÃO POR CABO

Lugar de Poços
2950 - 425, Palmela
Portugal
Tel.: 351 210 800 271
Fax: 351 210 800 238

CORPORATE INFORMATION

ANNUAL MEETING

The Annual Shareholders Meeting will be held at 4 p.m. on Tuesday, December 5, 2006, at the MaRS Centre, South Tower, 101 College Street, auditorium BC, Toronto (Ontario).

AUDITORS

Deloitte & Touche LLP
1 Place Ville Marie
Suite 3000
Montréal (Québec)
H3B 4T9

LEGAL COUNSEL

Fraser Milner Casgrain LLP
1 First Canadian Place
P.O. Box 100
Toronto (Ontario)
M5X 1B2

1 Place Ville Marie
Suite 3900
Montréal (Québec)
H3B 4M7

TRANSFER AGENT SECOND SECURED DEBENTURES

Computershare Trust Company of Canada

TRANSFER AGENT SENIOR SECURED DEBENTURES AND SENIOR SECURED NOTES

Computershare Trust Company of Canada

QUARTER ENDS

November, February, May

YEAR END

August 31

INQUIRIES

The Annual Report, Annual Information Form and Quarterly Reports are available in the Investor Relations section of the cogeco.ca website or upon request by calling (514) 874-2600.

Des versions françaises du rapport annuel, de la notice annuelle et des rapports trimestriels sont disponibles à la section Relations avec les investisseurs du site Internet cogeco.ca ou sur demande au (514) 874-2600.

INVESTORS AND ANALYSTS

For financial information about the Corporation, please contact the Department of Finance.

SHAREHOLDERS

For any inquiries other than a change of address, financial information or a change of registration of shares, please contact the Legal Affairs Department of the Corporation.

DUPLICATE COMMUNICATIONS

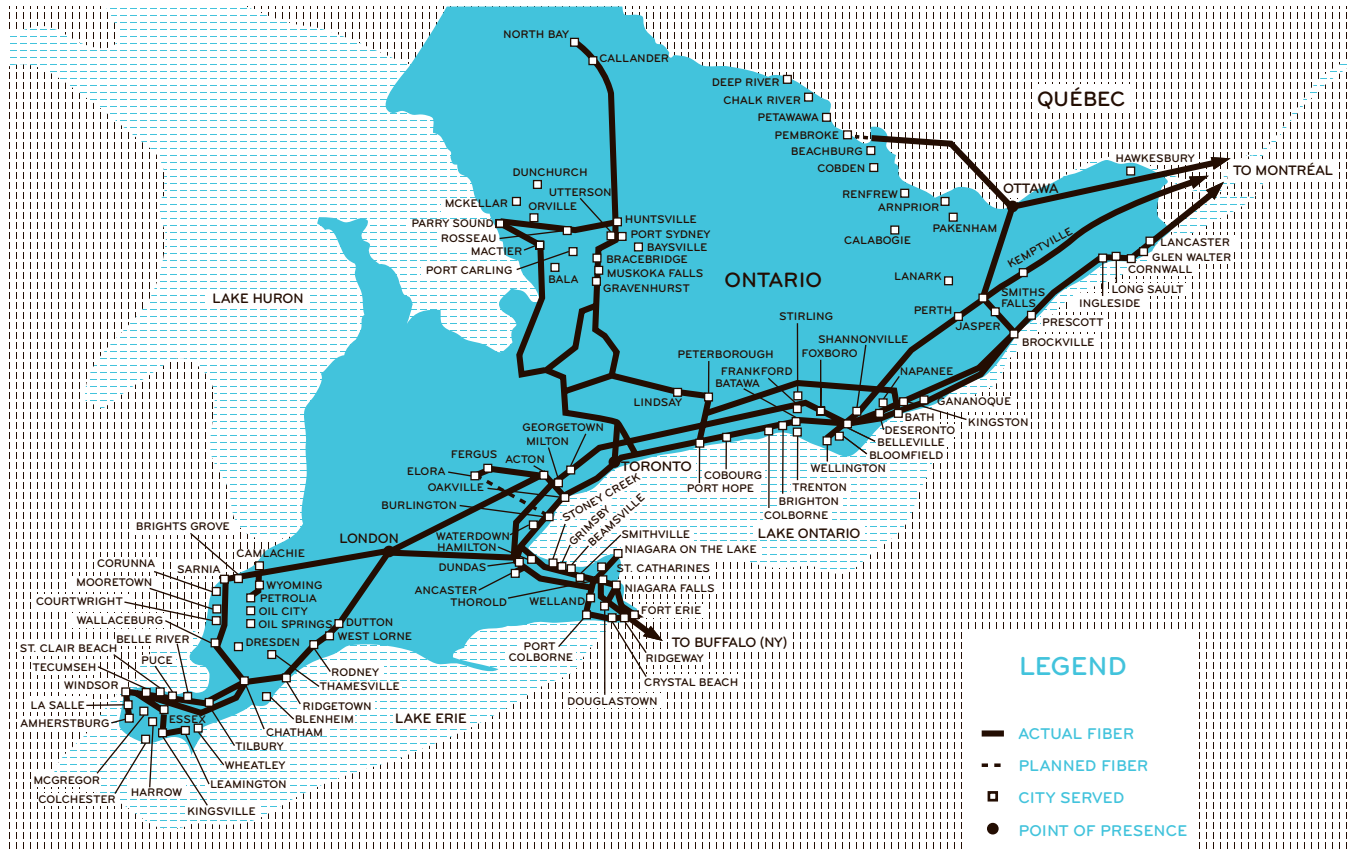
Some shareholders may receive more than one copy of publications such as Quarterly Reports and the Annual Report. Every effort is made to avoid such duplication. Shareholders who receive duplicate mailings should advise Computershare Trust Company of Canada.

WHISTLE BLOWING PROCEDURES REGARDING ACCOUNTING, INTERNAL ACCOUNTING CONTROLS OR AUDITING MATTERS

Any employee of Cogeco Cable Inc. or of any of its subsidiaries with concerns regarding questionable accounting or auditing matters may submit a complaint on such concerns on a confidential basis, with protection from reprisals, to the Chief Legal Officer of the Corporation, or directly to the Board Chair where there is reason to believe that an organized offence has been authorized at a high level or that reprisals would be authorized at a high level. These complaints will be reviewed as to substance and materiality under the direction of the Audit Committee and the oversight of the Chief Legal Officer or the Board Chair as the case may be, and the Internal Auditor or such other persons as the Audit Committee determines to be appropriate.

Ontario Inter-City Fiber Deployment

Optic Cable Network: 4,695 km Optic Fiber: 34,953 km



Portugal Inter-City Fiber Deployment

Optic Cable Network: 1,811 km Optic Fiber: 173,856 km



Credits

PHOTOS
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